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The Journal of SOCIAL, POLITICAL AND ECONOMIC STUDIES

Roger Pearson
General Editor
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Associate Editor

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Accounting for U.S. Current Account Deficits During the 1990s

M. Faizul Islam[1]
Southeastern University, Washington D.C.

The author examines the circumstances surrounding the U.S. current account deficits which have persisted throughout the 1990s and links a strong dollar to foreign investment in U.S. financial and physical assets and to the resultant U. S. tarde deficit.

Key Words: World trade, US Balance of Payments, US Gross Domestic Product, international investment.

U.S. current account deficits during the 1990s have largely been influenced by a robust U.S. economy, a strong American dollar and an improvement in U.S. commodity terms of trade. Unlike the 1980s, the increased inflow of foreign capital during the past decade has financed the investment boom in the United States. The deterioration in the U.S. trade gap has been pervasive across countries as well as across sectors.

The U.S. current account deficit ballooned to $271.3 billion in 1999, surpassing all previous records. As a share of gross domestic product (GDP), the deficit was 2.9 percent, still below the record of 3.2 percent in 1987.

Although the burgeoning of the current account deficit did not become a political issue in the 2000 presidential election, a debate is brewing about its long-term sustainability.[2] This issue has also drawn interest because of the delinking in the causal relationship between the so-called "twin deficits." It was believed that huge budget deficits caused trade deficits during the 1970s and 1980s.[3] Yet, budget surpluses in the late 1990s did not produce trade surpluses.

The rest of this paper is as follows: Section two reviews the

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[2] See Mann (1999) for a comprehensive discussion of whether the U.S. trade deficit is sustainable. Also see Humpage (Oct 15, 1998) and Schott (2000).

[3] See Aschauer (1986), Stern (1986), Darrat (1988), Abell (1990) and Latif-Zaman and DaCosta (1990).

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open-economy Keynesian model; macroeconomic factors are discussed in section three; and section four presents the regional and sectoral distribution of the U.S. merchandise trade deficit, followed by my conclusion, in section five.

II. Review of the Model and the Twin Deficits

In the context of a Keynesian open economy model, gross national product, Y, is the sum of private consumption expenditures, C, gross private domestic investment expenditures, I, government expenditures, G, and exports, X, over imports, M:

$$Y = C + I + G + X - M \quad (1)$$

or $$Y - (C + I + G) = (X - M) \quad (2)$$

Equation (2) says that the current account is the difference between national income, Y, and domestic spending, C + I + G. If a country is using more output than it is producing, it will have a current account deficit.

Alternatively, Y equals private consumption expenditures, C, savings, S, and taxes, T:

$$Y = C + S + T \quad (3)$$

Substituting (3) in (1) and rearranging terms yields:

$$(X - M) = (S - I) + (T - G) \quad (4)$$

Equation (4) can also be interpreted in three different ways: i) a given budget deficit must be equal to the sum of surplus in savings (S > I) and the trade deficit (X < M); ii) a budget deficit can be

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financed by domestic savings or by foreign sources; and iii) given the fiscal budget, a decline in the savings surplus is associated with a rise in the trade deficit.

Equation (4) can be rewritten as:

$$\text{Current account balance (CA)} = \text{private saving } (S_p) - I - (G - T) \quad (5)$$

Table 1 presents data for the four variables associated by equation (5) for the United States during the 1990s.

Ceteris paribus, equation (5) suggests that an increase in private savings leads to an increase in the current account surplus. An increase in investment or the budget deficit reduces it.

The U.S. data during the 1990s reflected that the casual link from budget deficits to current account deficits either did not hold or weakened. If the two deficits were truly twins, then U.S. current account deficits should have been eliminated by budget surpluses. As data in Table 1 indicates, the trade gap was widening despite improvements in the fiscal budget.

What is also interesting to observe from Table 1 is that while public savings were increasing, private savings were declining. Thus, while the rate of public sector savings was improving recently, the U.S. household savings' rate was plunging to its lowest level. As a result, the United States had to rely on continued inflow of foreign capital. Unlike the 1980s, the ballooning in the trade deficit during the 1990s with a concomitant increase in foreign borrowing have helped finance the investment boom.[4]

III. Macroeconomic Factors

The U.S. trade imbalance has primarily been caused by a robust American economy, a strong U.S. dollar, and gains in commodity terms of trade.

[4] The surge in investment has boosted productivity. Productivity as measured by output per worker in the nonfarm business sector averaged 1.96 in the 1990s which was higher than the average of 1.43 during the 1980s.

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Table 1
The Arithmetic of U.S. Twin Deficits*; (percent of GDP)

Year	CA	S_p	I	G - T
1990	-1.4	17.5	14.8	-3.8
1991	-0.1	18.4	13.4	-4.5
1992	-0.8	18.4	13.7	-4.6
1993	-1.3	17.5	14.4	-3.8
1994	-1.7	17.0	15.6	-2.9
1995	-1.5	17.1	15.5	-2.2
1996	-1.7	16.5	15.9	-1.4
1997	-1.7	16.4	16.7	-0.3
1998	-2.5	15.7	17.5	0.8
1999	-2.9	14.8	17.5	1.3

Source: *Economic Report of the President, 2000* and the Bureau of Economic Analysis.
* Because of rounding and errors in data collection, the numbers do not exactly add up as required by equation (4).

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Economic Growth

The unequal rate of economic growth between the United States and its trading partners was largely responsible for U.S. trade imbalances. As shown in Figure 1, when the U.S. economy slid into recession in the early 1990s, while the economic growth rate of its 20 major trading partners[5] remained higher, the U.S. trade deficit was low, (Figures 2A and 2B). That is, when the U.S. economy contracted by 0.2 percent in 1991, the total U.S. trade deficit (which includes merchandise & services) was $27.9 billion (or merchandise trade deficit of $73.8 billion).

However, as the U.S. economy continued to gain strength after 1991, the U.S. current account gap began to rise. In the late 1990s, U.S. economic performance was very strong, with its GDP growing more than 4 percent annually from 1997 through 1999. Higher economic growth in the United States led to higher income levels and increased purchasing power for U.S. consumers. That is, higher economic growth in the United States absorbed higher imports from all over the world. Consequently, the total U.S. trade deficit soared to $104.7 billion (or a merchandise trade deficit of $196.7 billion) in 1997 and even higher in 1999. From 1990 through 1999, the income elasticity of U.S. imports was estimated to be 1.96. That is, the increase in U.S. demand for imported goods was nearly twice the rise in real income. Thus, U.S. imports and trade imbalances were largely influenced by the strength of the domestic economy.

Similarly, U.S. exports are dependent on the economies of its trading partners. As shown in Figure 1, the economic growth rate of America's twenty major partners was very weak in the late 1990s. Japan, the second largest economy in the world and also among the three major U.S. export markets, had a lackluster economic growth during the last decade and even plunged into recession in 1999. Economic growth in industrial economies like Canada, Germany, France, Italy and the United Kingdom, which are also among the leading markets for U.S. exports, was less than the growth rate in the United States. Brazil, the eighth largest economy in the world and the eleventh largest market for U.S. exports, experienced economic

[5] Includes Japan, China, Canada, Germany, Mexico, United Kingdom, South Korea, Taiwan, Singapore, France, Brazil, Australia, Italy, Saudi Arabia, Philippines, Thailand, Malaysia, Hong Kong, Belgium and Netherlands.

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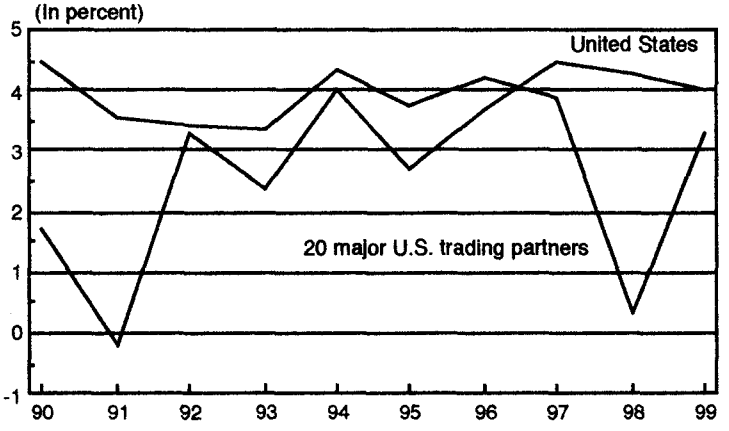
Figure 1
Real GDP Growth: U.S. and Foreign



Source: International Financial Statistics and Economic Report of the President, 2000.

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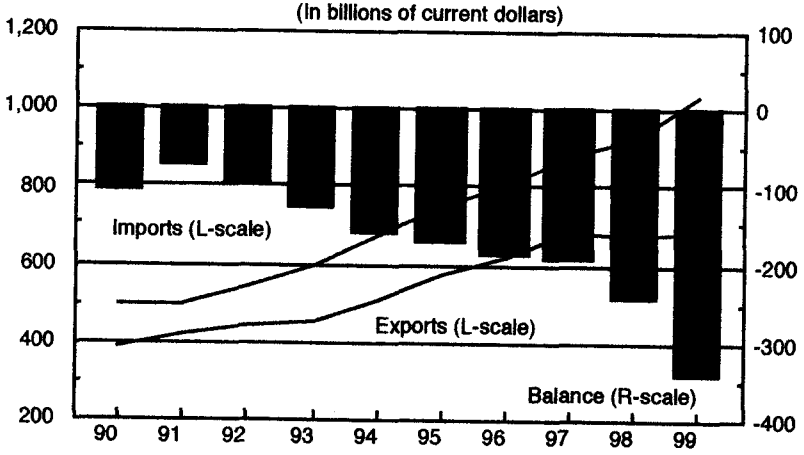
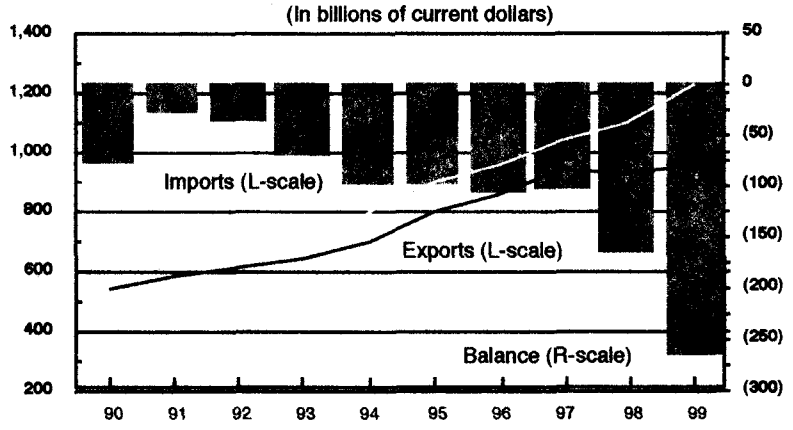
Figure 2A
U.S. Merchandise Trade



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 2B
U.S. Merchandise & Services Trade



Source: Bureau of Economic Analysis, U.S. Department of Commerce

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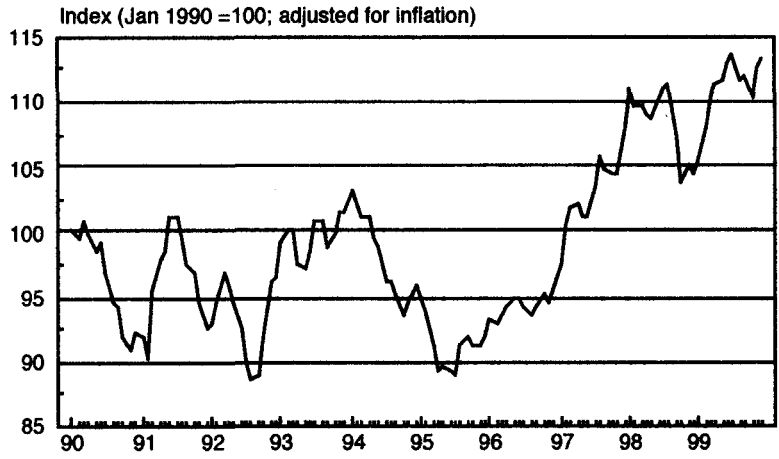
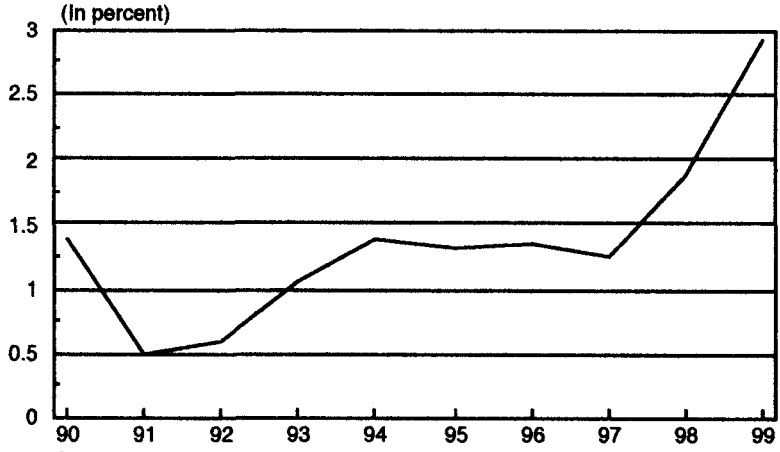
Figure 3
U.S. Global Dollar Index



Source: U.S. Department of Commerce.

Figure 4
Trade deficit in goods & services as a share of GDP



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

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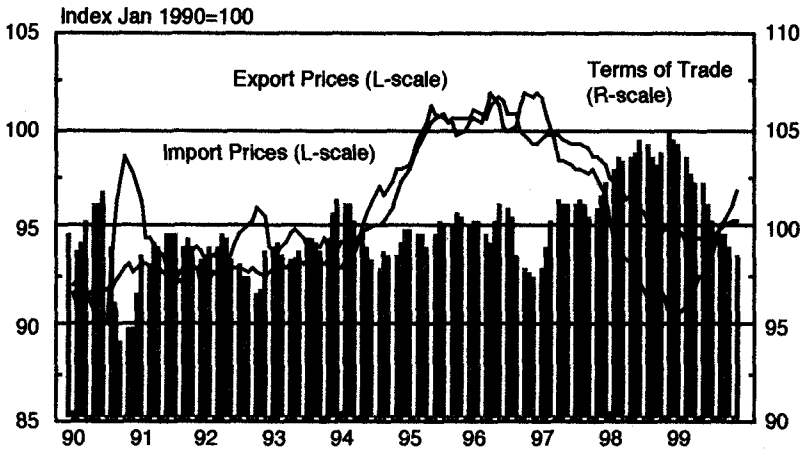
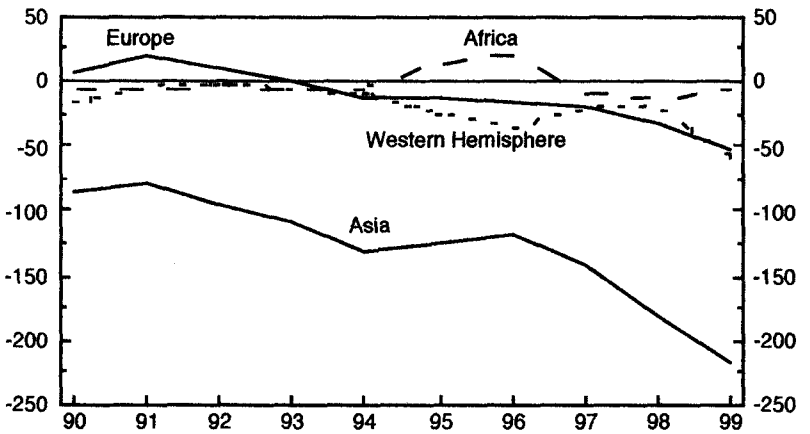
Figure 5
Commodity Terms of Trade



Source: Bureau of Labor Statistics, U.S. Department of Labor

Figure 6
U.S. Merchandise Trade Deficit-Regional

(In billions of current dollars)



Source: Bureau of Economic Analysis, U.S. Department of Commerce

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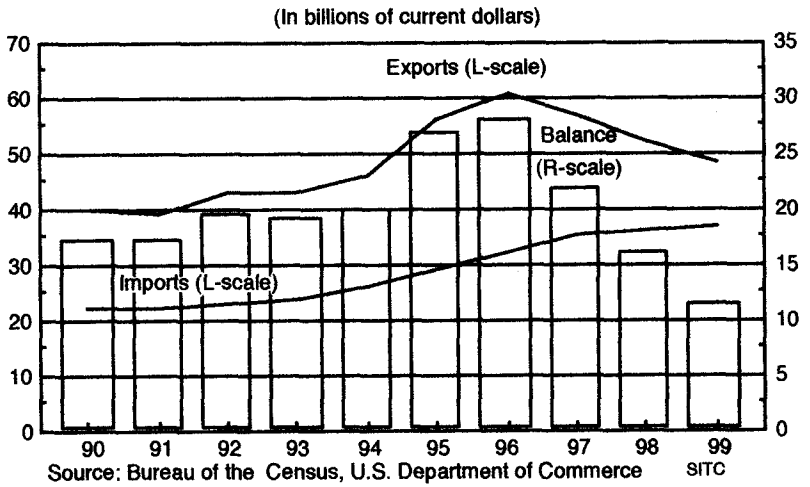
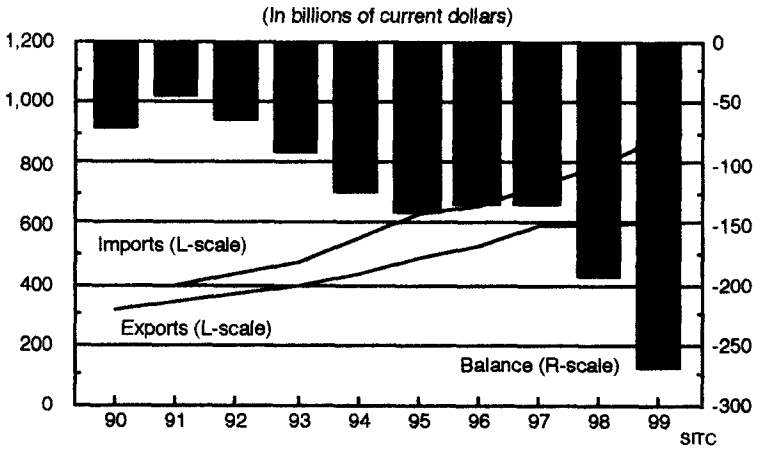
Figure 7
Agricultural Goods' Trade



Source: Bureau of the Census, U.S. Department of Commerce

Figure 8
Manufactured Goods' Trade



Source: Bureau of the Census, U.S. Department of Commerce

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growth of -0.1 percent in 1998 because of its currency crisis. Most Asian countries, too, slid into recession in 1998. Following the 1997 financial crisis, the economies of the Asian Five (Indonesia, Malaysia, Philippines, South Korea and Thailand) contracted in 1998. U.S. exports to the Asian Five fell sharply, while its imports rose moderately. As a result, the U.S. merchandise trade deficit with the Asian Five widened from $18.3 billion in 1997 to $38.0 billion in 1998, and to $42.7 billion in 1999. When foreign economies remained weak and their purchasing power dampened, U.S. exports were hit hard, regardless of the price or quality of American goods.

During the 1990s, U.S. merchandise exports grew at an average annual rate of 6.4 percent, while imports grew at 8.4 percent. That is, while U.S. exports performed well, U.S. imports grew even faster.

As pointed out by Mann (1999, p. 124), "the estimated responsiveness of US imports to US economic activity is significantly larger than the responsiveness of exports to changes in foreign activity, particularly in the long run and for trade in goods. This "income asymmetry" implies that even if the United States and its trading partners grow at the same rate (and the exchange value of the dollar remains unchanged), the US real trade deficit widens."

The Value of the U.S. Dollar

The value of the dollar has also been strengthened by an environment of low inflation and higher interest rates.[6] The expansion in U.S. current account deficits has led to the appreciation of the U.S. dollar, too.[7] As shown in Figure 3, the trade-weighted value of the dollar has risen sharply since 1995. A strong dollar has

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[6] See Islam, Muhammad F., (1996). When prices are stable, inflationary expectations are dampened. U.S. assets become less risky and become more attractive to foreigners. When foreigners buy dollars, its value increases.

[7] See Humpage (Jan 1, 1998) where he argues that a current account surplus or deficit does not indicate which direction the dollar exchange rate will move. For example, if U.S. domestic demand for foreign goods initially increases, U.S. imports will rise, the U.S. current account deficit will grow, and the dollar will depreciate. As a result, U.S. financial securities become more attractive accompanied by an inflow of foreign capital. That is, the worsening of the U.S. trade deficit leads to a depreciation of the U.S. dollar. There is another possibility which is more applicable in the U.S. context in the 1990s. An improved domestic investment climate can attract foreign capital. The dollar appreciates and making U.S. goods expensive resulting in a balance between increased capital inflows and the growing trade deficit.

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made foreign goods cheaper, thereby encouraging higher U.S. imports. On the other hand, U.S. goods became less competitive, dampening American exports. U.S. goods have become relatively expensive not because these goods and services are not produced efficiently at home, but because the real value of the U.S. dollar has risen 20 percent in the second half of 1990s. Similarly, U.S. imports were cheaper in dollar terms. As shown in Figure 4, the U.S. trade deficit in goods and services as a share of GDP has shot up in recent years. The large U.S. trade surplus in the services sector – particularly tourism – is diminishing largely because of a strong dollar. Americans are touring foreign countries while foreigners are discouraged from visiting the United States because it has now become an expensive place. A study undertaken by Goldman Sachs found that if the dollar (on a trade-weighted basis) were to fall by 10% to 15% over the next two years, the U.S. trade deficit would continue to deteriorate through early 2001.[8]

Commodity Terms of Trade

U.S. trade imbalances can also be explained by the changes in prices of U.S. exports and imports. The surge in import prices in the mid-1990s was also followed by a similar increase in export prices.

Due to the worldwide economic slump in the late 1990s, prices of primary commodities fell sharply in the global markets. A decline in the global prices of primary commodities exerted a downward pressure on U.S. import prices. As prices of primary commodities dropped, its imports into the United States went up. U.S. export prices fell, too; but it was less than the decline in U.S. import prices. As is evident in Figure 5, the commodity terms of trade turned in favor of the United States in the late 1990s. The commodity terms of trade, which rose by an average of 3 percent over the 1998-2000 period, indicate that for a given number of exports the United States could obtain 3 percent more imports. The abrupt surge in the price of crude oil from as low as $9.19 per barrel in January 1999 to $22.67 per barrel in December 1999 also pushed the U.S. trade deficit higher by $13 billion in 1999.

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[8] *The Economist*. October 3, 1999. p. 28.

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Table 2
U.S. Merchandise Trade of End-Use Category (1990-1999)

Types	Trade balance	Exports*	Imports*
Capital goods	Surplus	8.1	8.5
Consumer goods	Deficit	7.1	9.4
Automotive vehicles	Deficit	7.9	8.3
Industrial supplies	Deficit	3.8	4.9
Foods, Feeds, Bever.	Surplus	2.9	5.6

*annualized growth rates in percent.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

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IV. Regional and sectoral distribution of the U.S. merchandise trade deficit

The factors discussed above have led the U.S. merchandise trade deficit to worsen across regions as well as across sectors. The United States had had a merchandise trade surplus with Europe in the early 1990s, and with Africa in the mid-1990s. However, the United States ran merchandise trade deficits with all regions in the late 1990s (Figure 6). As many as twenty countries with which the U.S. had a trade surplus in 1990 turned into deficit in 1999.[9] An examination of the U.S. merchandise trade deficit with the world suggests that its trade gap in the late 1990s was pervasive; i.e., the U.S. had a trade deficit with countries regardless of their level of income or economic development. The top five countries with which the U.S. had the largest merchandise trade deficits were Japan, Taiwan, China, Germany and Canada, accounting for four-fifths of the overall U.S. merchandise trade deficit in 1990. The largest U.S. trade deficits were with Japan, China, Canada, Germany and Mexico, which accounted for two-thirds of the U.S. merchandise trade deficit in 1999.

The surplus that the U.S. has traditionally enjoyed in agriculture trade[10] has been diminishing, largely because of the decline in prices of two major crops – wheat and corn. Exports of agricultural goods grew at an annual rate of 2.2 percent, while imports grew at an annual rate of 5.6 percent from 1990 through 1999. The trade deficit in manufactured goods has been widening. Exports of manufactured goods grew 7.6 percent annually, while imports grew 9.4 percent.

The U.S. merchandise trade of end-use categories is shown in Table 2. From 1990 through 1999, the United States incurred a growing trade deficit in consumer goods, automotive vehicles and industrial supplies. Although the trade balance in capital goods and food, feeds and beverages was in surplus, its size was diminishing.

V. Conclusion

In the 1980s, the presence of large budget deficits was singled

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[9] Includes Ireland, United Kingdom, Portugal, Gibraltar, Malta and Gozo, Bulgaria, Romania, Netherlands Antilles and Aruba, El Salvador, Honduras, Nicaragua, Chile, Brunei, Pakistan, Vietnam, Chad, South Africa, Zambia and Zimbabwe.

[10] The data presented for agricultural and manufactured goods are based on the Standard International Trade Classification System (SITC).

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out to be the root cause for the burgeoning of current account deficits. Foreign capital inflow boosted consumption. In contrast, the U.S. has had budget surpluses in the late 1990s coupled with current account deficits. Foreigners invested in America's financial and physical assets, which has fueled the investment boom in the 1990s. A robust American economy, a strong dollar and com-modity terms of trade in favor of the U.S. have been largely responsible for the ballooning of U.S. current account deficits in the 1990s. The U.S. trade deficit has deteriorated both in terms of American markets and goods.

Therefore, any amelioration in U.S. current account deficits would require that the economies of its trading partners grow much faster than the American economy. The U.S. dollar has to weaken *vis-a-vis* foreign currencies in order to make U.S. exports more competitive in world markets. Private savings should rise in the United States not only for domestic investment to become less reliant on foreign capital, but also to avoid any disruption in financial markets and economies, both at home and abroad, in the event of any abrupt or large-scale withdrawal of foreign funds from the United States.

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Proposals for Reforming the International Monetary Fund : A Review

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The international monetary system as it was originally designed at the Bretton Woods Conference and subsequently amended stands in marked contrast to today's global economy in terms of the size, complexity and speed of capital markets. This paper presents an evaluation of some of the key elements of the main proposals for reforming the IMF. The analysis reveals that, with the exception of a regime of complete flexibility, all other proposals relegate the IMF to a minor and ineffectual role or assign it an impossible task of co-ordination. One direct consequence of the globalization of financial markets is the need for non-inflationary monetary policies. Consequently, under the best proposals, the IMF reconfigures itself as a public rating service and an agency for rescheduling debt, and withdraws from foreign exchange rate stabilization.

Key Words: International Monetary Fund, IMF, Bretton Woods, globalization, international finance, monetary policy, exchange rates.

An animated debate over the future of the International Monetary Fund has begun. The institution's present unpopularity appears to be on the increase while a wide variety of fixes have been proposed; including outright abolition. It has become obvious, fifty years after Bretton Woods, that the global economy is characterized by a slow growth, third world debt crisis, and currencies crisis, with no sign of reversing. Even during periods of deflation of the 1990, inflationary expectations remain so deeply ingrained that the slightest sign of economic recovery is sufficient to trigger another round of price hikes. These changes in the global economy suggest that the international monetary fund is in need of a major overhaul.

Historically, the IMF has shown some ability to adapt to changing times. After several rounds of negotiations, the General

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Arrangements to borrow (GAB), was agreed in December 1961 and by the end of sixties, when confronted with the Triffin dilemma, it created special drawing rights (SDRs).[1] The 1970s witnessed the implementation of flexible exchange-rate regimes. As of the second half of the eighties, the IMF adopted the approach of *surveillance* over the economic policies of its member nations. At the same time, the literature on possible reforms of the Fund expanded. The objective of this study is to present a critical analysis of the various proposals pertaining both to the exchange mechanism and to other essential aspects of the smooth functioning of the IMF, and to identify viable alternatives. As to the current policy of *surveillance*, a cross-examination of both its feasibility and its real impact will be provided. To lay the groundwork for this study, a brief discussion of some of the main aspects of the difficulties currently facing the IMF, is first outlined.

The IMF and the Global Economy, or David and Goliath

A Mixed Record

If GATT's success in liberalizing trade among its member countries is uncontested, the same cannot be said for the IMF's record in achieving its goals as laid out at the Bretton Woods conference. Recall the first article of its Articles of Agreement:

> ...To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustment in their balance of payments without resorting to measures destructive of national or international prosperity.

In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Article 4 invites each member to co-operate with the Fund in order to promote exchange rate stability and to avoid competitive devaluations. Thus, as a financial institution, the IMF was assigned the task of helping its members defend their currencies on financial markets and of preserving equilibrium in the balance of payments. Has the IMF performed these functions well ? The answer to this question is elusive, since the job amounts to policing national

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governments over which it has no authority. Let us report some statistics. The fixed exchange-rate regime was severely tested during the fifties when a number of countries, including the United Kingdom, France, and Spain depreciated their currencies in excess of the proscribed limits.[2] As to the United States, they contributed to undermining the system under the pressures reflected in the Triffin dilemma. Now, a monetary system should be judged by its ability to promote discipline, match investors and borrowers, and settle transactions in a timely and efficient manner.

On the subject of its success in bringing together actors and facilitating transactions, the performance of the IMF is above reproach. Year after year, membership in the IMF increases, from 45 in 1945 to 183 on April 30, 1999. The countries of Eastern Europe, who deserted the IMF at its beginnings, are now rejoining its ranks one by one (for example, the Russian Federation, Romania, the Slovak Republic, the Czech Republic, and Slovenia).[3] Moreover, trade and financial transactions between countries have expanded to such an extent that nothing further needs to be said on the matter.[4] Incidentally, the IMF has actively promoted trade liberalization. In fact, while the Fund's Charter elaborated at Bretton Woods does not enjoin restrictions on the movement of capital, since its inception the IMF has facilitated multilateral payments by promoting the convertibility of currencies, thus stimulating trade. The IMF's success in the area of convertibility is attested to by the growing number of

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[2] The Triffin dilemma (confidence/liquidity problem), dubbed after the economist Robert Triffin from Yale University is as follow: either the United States would succeed in curing its payments deficit, in which case world growth would be strangled by liquidity shortage; or its deficits continue, in which case, it runs a risk of being unable to ensure convertibility between the dollar and gold, thus undermining confidence in the system. Indeed, from 1945 to 197 1, the world has evolved from a dollar shortage to a dollar glut which still remains one root of the international financial crises.

[3] Devires (1968) shows that between 1948 and 1967, 97 of the 109 members of the IMF adjusted their rate of exchange with respect the American dollar at least once. Over half of these countries, including the United Kingdom, France and Spain, devalued their currencies cumulatively in excess of 40 %.

[4] After participating in the Bretton Woods negotiations, the former USSR approved the Articles of Agreement of the IMF, but did not ratify them. Poland quit the IMF in 1950 under the pretext that it was a tool of U.S. domination. The former Czechoslovakia was expelled in 1954 for having modified the value of the koruna without informing the IMF of its intentions in advance, and for failing to provide the required economic data.

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countries having adopted this policy.

In fact, according to Fieleke (1994), at the end of 1946 only four countries had established convertibility, while the corresponding number in 1993 was 82. More significantly, he observes that the percentage of global imports realized by the members of the IMF with convertibility has not stopped growing—from the relatively modest level of 23% in 1957 to 85% in 1992—after a small decline during the first half of the seventies. It is true that innovations in information and communications technologies have contributed significantly to facilitating domestic and international financial transactions, but these occur within the framework of an established international monetary system. The real issues confronting the Fund are thus found at the level of imposing discipline and assisting with balance-of-payments adjustments.

Are the rules established at Bretton Woods, and subsequently modified, sufficient to curb the excesses of member states ? As for the rules governing exchange rates: opinions differ, sometimes vehemently. Some maintain that betting on fixed exchange rates with the concomitant curtailing of fluctuation is insufficient to enforce discipline in the conduct of macroeconomic policy, as long as capital flows occur in spontaneous reactions to interest rate differentials. Moreover, a system of fixed exchange rates, where the value of money is tied to gold or to a standard currency, only introduces restraint to the extent that the lead monetary authority, or the owner of the gold, exercises self-discipline. This was not the case of the United States during the Bretton Woods era, nor of the United Kingdom during the gold standard or the gold-exchange standard period.

The potential conflict inherent in the liquidity/confidence balance during crisis periods, has motivated an entire theory validating flexible exchange rates. These authors believe that the fixed-rate principle from Bretton Woods may have been viable if currency values had been tied directly to gold, rather than to the dollar, and if the adjustment rules had been more restrictive. Under de Gaulle, France in particular advocated a fixed-rate regime based on gold while also seeking to limit U.S. control over the Fund. We are, of course, aware of subsequent events, and of the ascendancy of the flexible exchange-rate model. However, almost thirty years had to elapse before the IMF would modify its Charter to legitimize flexible rates,

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which are characterized by their volatility, as is well documented in Huang (1981), Lanyi and Suss (1981), Williamson (1985), and Baldwin and Krugman (1986), Swoboda (2000, p. 123-138).

As to disequilibria in international payments, these have increased over the course of time. The Bretton Woods system advocated a temporary balance of payments adjustment mechanism using national reserves and/or funds borrowed from the IMF. Fundamental disequilibria, which, incidentally, are not clearly defined in the Fund's articles, are to be corrected by a discretionary adjustment of the international value of the currency, which simply passes from one fixed rate to another.[5] Thus, a persistent deficit (surplus) leads to depreciation (appreciation). Notably, this occurred when the British pound sterling was devalued in the autumn of 1967, and when the value of the Canadian dollar was cut from parity with the U.S. dollar to $0.905 U.S. per $1.00 Cdn. in 1949, followed by a managed float between 1950 and 1962. Nonetheless, the deterioration of the U.S. trade balance persisted throughout the 1970s and 1980s and no corrective measures were implemented. Clearly, since the United States did not have the option of adjusting its exchange rate, the only means available to absorb the payments disequilibrium was monetary policy—posing the Triffin dilemma. In brief, without lingering on this perverse aspect of the Bretton Woods system which has already been widely commented in the literature, our primary focus should be the profound changes in the global economy.

The euphoria of the fifties and sixties was succeeded by economic crises, oil shocks, inflation, unemployment and high levels of foreign indebtedness for many developing countries. Fundamental disequilibria appeared here and there at the same time as an unprecedented increase in the mobility of capital. Unfortunately—or should we say fortunately—repeated exchange rate adjustments did not suffice to correct the disequilibria. Obviously, the IMF does not have sufficient resources to provide short- or medium-term loans to

[5] According to estimates from the Bank for International Settlements (BIS), the amount of eurocurrency's, evaluated at $247 billion in 1973, increased every year to reach about $7,200- billion in 1992. Estimates from the World Trade Organization indicate that global goods exports increased by a factor of 64 between 1977 and 1992, increasing from $57 billion to $3,650 billion over this period and $6,515 billion in 1998.

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its members, so its goal of "...providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity" becomes wishful thinking. Neither the creation of SDRs, nor that of various facilities, including Extended Fund Facilities, Structural Adjustment Facilities, Enhanced Structural Adjustment Facilities, Stand-By Arrangements, and Systemic Transformation Facilities have been able to correct disequilibria in international payments. In fact, the external debt of developing countries, amounting to $671,7-billion in 1980, has continued to grow every year, passing the $2,500-billion threshold in 1998. While quite high in absolute value, the Fund's credits only represent a small fraction of the total debt of developing nations (3.8% in 1998) [The World Bank (1999)].

Furthermore, the evidence is mixed on the impact of the IMF's credit facilities. In the words of Fielcke (1994):

> The tentative evaluations that have been performed offer mixed and dubious verdicts. For example, two of the more sophisticated appraisals, by economists within the IMF itself, have reached contrasting conclusions. One found that Fund lending programs typically produced no significant effects on the borrower's balance of payments, rate of inflation, or economic growth [Goldstein and Montiel (1986)]. The other found an improvement in the balance of payments, no significant effect on the rate of inflation, and some decline in the rate of economic growth [Khan, (1990), esp. pg. 222].

It appears that even its patients, such as Mexico, Korea, Thailand, Ghana, etc. find the cures proposed by the IMF particularly bitter and hard to swallow; contributing to the unpopularity of both the Fund and its structural adjustment programs. Whatever one's position on this controversy, the most that can be said is that the IMF's credit facilities, coupled with other measures from the Clubs of Paris or London, have helped avert the collapse of the international financial system by assisting with the development of temporary solutions to the liquidity problems of developing nations. However, the developing world's foreign debt crisis, which erupted onto the world stage in the early eighties, has not yet been satisfactorily resolved. Special Drawing Rights, created to eliminate significant balance of payments disequilibria, have not yet earned

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their stripes because commercial financial markets have evolved to fill this role.[6]

According to data published by the Fund, the relative share of SDRs in total international reserves (excluding gold) was 6.0% at the beginning of the 70s, 3.0% in 1991 and 1.3% in Marck 1999. Furthermore, in contrast to the ECU (another basket of currencies), SDRs do not figure among the main currencies in international bank loans or bond markets. Finally, very few currencies are pegged to the SDR. As of 30 of April 1999, only four countries (Bahrain, Qatar, Saudi Arabia, United Arab Emirates) have their exchange rates on a fixed relationship to the SDR.

Many countries' current accounts are characterized by persistent disequilibria. The main countries showing surpluses are Japan, the Netherlands, Switzerland, and, as of recently, China (a country which has historically been closed) and Singapore. Germany's deficit situation, which is a recent phenomenon, can be explained by the burden of unification. Given the celebrated competitive strength of German industry, observers anticipate a turnaround. Japan's trade with the rest of the industrialized world, especially the U.S., is characterized by growing imbalances. We shall leave uncommented the situation of most developing countries, whose accounts continue to accumulate red ink.[7] Let us examine the problems created by capital movements.

A. The Nearly Unpredictable Behavior of Financial Markets

It is widely recognized that one of the principal characteristics of the global economy in the current and next decade is the volume, the complexity and the speed of financial transactions. This flow of capital does not necessarily reflect any comparative advantage in the

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[6] This characteristic of the Bretton Woods system can be interpreted as the adjustment to long-term disequilibria that develop because of secular shifts in the demand for and supply of foreign exchange. These disequilibria (deficit or surplus in the balance of payments), first developed slowly, and then could lead to a series of speculative crisis.

[7] The history of the creation of SDRs is itself quite eventful. First valued with reference to gold but not convertible in'to gold, it was then redefined as a basket of currencies the number of which fell over time. The quantity of SDRs emitted and their distribution among the member countries has also been subject to lively criticism. Finally, use of SDRs relies on complicated procedures of designating accredited holders and rules governing the operations between participants and non-participants.

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affected countries or regions. Rumors of armed conflicts combined with problems of corruption, poor economic management, social instability, and speculation are sufficient to motivate massive transfers of funds from one region to another. Furthermore, investors have both the ability and the incentive to seize every opportunity that presents itself.

Had there not been an enormous flight of capital from Mexico, Venezuela, Nigeria, Argentina Brazil and India, these countries' external debt problems, which came to a head in the early 1980s, would not have assumed crisis proportions.[8] Until then, many developing nations, especially low-income countries, were having difficulty attracting foreign capital. In 1998, the total global value of direct foreign investment (inflow) was equal to $644-billion, of which only about 26% flowed into the developing world[9]—and this was an improvement over the preceding years. Concurrent to this irresistible flow of capital we observe the worrisome prospect of a collapse of the international financial system (liquidity, credit, legal, operational, and sovereignty risks, the risk of contagion and the "Tequila effect," etc.). On the subject of financial panics, Minton-Beddoes (1995) underline that, after the Mexican peso crisis, investors briefly withdrew from the markets of Bangkok and Buenos Aires, which had been showing healthy growth. Because of contagion, the behavior of financial markets may cause a prosperous economy to suffer the impact of a crisis elsewhere.

The preceding observations reveal the need to strengthen the financial institutional framework as well explained by OCampo (2000, p. 41-54), Eichengreen (1999), IMF (1999). Furthermore, the IMF's credit facilities cannot match the volume of its members' payment imbalances in an international environment characterized by high capital mobility. In the face of these realities, is the IMF being asked

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[8] Notice that the capital account data contains many holes (poor quality, incompleteness), since the evaluation of international flows has become hard to follow in light of market liberalization, financial (technological) innovation and the diversity in accounting procedures between countries. Balance of payments statistics, in particular the capital account, must be read with a great deal of caution.

[9] Pool and Stamos (1987, pg. 56) report the conclusion of Morgan Guaranty Trust to the effect that, had it not been for the flight of capital, Mexico's debt would only have been $12-billion in 1985 instead of $96-billion, and that the flight of capital created 115 % of the effective debt of Venezuela.

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to play the role of David against Goliath, i.e. to find a dominant and strategic position from which to help work through the impasse? To answer this question we begin by examining some of the reform solutions already proposed by various authors.

Reform Proposals

As previously indicated, three main conditions must prevail to guarantee the viability of an international monetary system: confidence in the stability of the benchmark currency, sufficient liquidity, and rules facilitating the correction of payment disequilibria. After the collapse of Bretton Woods the IMF did not abandon its key role of inviting member countries to intervene in markets in order to counteract fluctuations in their currencies' values. Nevertheless the mixed results of these interventions led several proponents to devise other alternatives.

A Fixed Exchange-rate Regime / A Single Currency

Cooper (1985) is among the most convincing advocates of reforms based on fixed exchange rates. He maintains that fast and inexpensive communications will allow for production units to be positioned in different parts of the world and will increase global commerce. Consequently, exchange rate fluctuations will be accentuated by profit taking, and by production and employment decisions in various regions. Destabilization due to these real factors will be exacerbated by massive movements of capital. Financial markets dictate changes in the short-term exchange rate, and governments have no choice but to intervene to counter arbitrary fluctuations if they want to maintain a free flow of trade. Cooper is here defending an idea shared by two of the creators of Bretton Woods, Harry Dexter White (Director of Monetary Research at the Treasury) and John Maynard Keynes: "...that you cannot have both free trade and free exchange rates. Either you have fixed exchange rates and free trade, or you have protectionism with floating exchange rates."

As it is difficult to restrict trade given modern communications and transportation facilities, the optimal policy becomes free trade and fixed rates. Nonetheless, the flood of capital across borders creates quite a challenge for maintaining fixed rates. The ideal solution would be to eliminate exchange rates by adopting a common

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currency with a Central World Bank, similar to arrangements in the European Union and in the United States, where the Federal Reserve Bank issues dollars for the fifty states of the Union. Under this proposition, the IMF would be transformed into a central bank with a board of governors comprising representatives of the member countries with voting powers assigned at a pro-rata of economic weight. This bank would generally play the same role as a central bank, that is: issue money, set reserve policy, fix interest rates, perform open market operations, etc. According to Cooper, this common currency could be almost anything, provided it rallies unanimous support. Excluding pre-existing national currencies for reasons of civic pride, the obvious choice for a replacement is the SDR. How would this central bank work ?

The autonomy of this Bank would be guaranteed to prevent manipulation for partisan electoral purposes. Its broad policy guidelines would be determined by the board of directors, including representatives of all countries in the Community. The adjustment and balance of payments mechanisms would be no different from those currently operating between the regions in large countries, such as Canada and the United States. Balance of payments adjustments would be automatic, except in the case of the capital account, which can be disturbed by local fiscal policy. This automatic adjustment could nonetheless create unemployment in a region—a problem which can be at least partially offset by immigration. Cooper concludes: "This one-currency regime is much too radical to envisage in the near future. But it is not too radical to envisage 25 years from now." i.e. by about the year 2012.

The Cooper proposal, which strengthens the role of SDRs, seems to us to present several drawbacks. First, the mechanism it provides for determining bank policy is doubly asymmetric, as the weighting of votes combined with the use of SDRs, which already contain national currencies, gives some countries disproportionate leverage. Second, this shared, composite currency coexists with national currencies, creating the danger of inflationary pressures. Finally, a composite currency is liable to inspire little confidence in the system.

Adoption of the Gold Standard

A fixed exchange-rate regime implies recognition of a currency or a precious commodity—to wit, gold—as the standard. The history

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of the international monetary system contains a wealth of experience pertaining to the functioning of the gold standard, which it is of some interest to briefly examine. A gold standard, in the purest sense, is a system under which a country defines the value of a unit of its currency with respect to a fixed quantity of gold, and undertakes to reimburse with gold anyone holding the currency. In this type of system, the issuing bank must be constantly alert to maintaining an equivalence between its reserves of gold and the money supply. A variant of this system is the gold-exchange standard, under which a reference currency is interposed between the domestic currency and the gold standard; this was the case with the pound sterling between 1870 and 1914, and briefly between 1925 and 1931, and with the dollar under Bretton Woods. IMF reform proposals thus bring us back to the notion of a gold standard, with or without an intervening currency [Laffer (1980), Paul and Lehrman (1982), Mundell (1984), and Hall (1984)]. Even David Ricardo [1953, pg. 241] held the opinion to subject the issuers of paper money to the obligation of paying their notes either in gold coin or bullion.

Several problems arise with the gold standard. First, it requires consensus on the price of gold, which, given its speculative nature, may prove quite elusive. Gold is demanded not only for transactions, but also for a growing number of industrial uses. Supply, in turn, is governed by the laws of discovery and extraction from new mines, having no relationship to the volume of market transactions. Thus, any price fixed for gold today may prove untenable over time. The possibility of changes in the price of gold constitutes a major destabilizing element of the system. Second, countries, which do not produce gold, have virtually no political interest in adhering to the system. For that matter, the gold standard does not guarantee price stability. Finally, the current distribution of the stock of gold does not correspond to the hierarchy of economies. In April 2000, a major player like Japan possesses a stock of gold ($7 billions) barely one-quarter the size of that of Germany ($32 billions), and smaller even than that of Netherlands ($8,4 billions). Evidently, Japan has no interest in accumulating gold. Furthermore, global production of gold is concentrated in South Africa and in the former Soviet Union, and to a lesser extent in the United States and Canada. Notice here that, outside of the United States, the other principal producing countries are not among the main possessors of gold.

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Return to the Bretton Woods System

Can we imagine a gold-exchange standard similar to the Bretton Woods system ? In the first place, the preceding remarks relating to the difficulties of fixing and maintaining the price of gold remain pertinent. Moreover, we do not currently observe any clear will among countries, especially those of Europe, to revert to the dollar as the common currency of reference. The words of Toyoo Gyohten, then Japanese deputy minister of finance, as reported by Rapport (1988, pg. 159), are unequivocal:

> In relative terms, the U.S. is declining. It was 40% of World GNP, now it's 25%. In absolute terms, of course, it is still the world economic power. But it's not stabilizing to have the world monetary system so dependent on the dollar. It is our task to make the yen more readily usable for both borrowers and uses.

What could be clearer in these words than the desire to see the yen compete with the dollar? The same ambition may be entertained in the case of the German mark or the future euro. If the dollar still plays an international role, this is more by default than by design. Will the United States be willing to accept the responsibility of maintaining the gold standard, given the risk that it may undermine the competitiveness of some of its industries ? Will the obligation to render the dollar convertible into gold not prove too constraining ? Recall that the United States, confronted with a double deficit (budgetary and trade), did not subordinate its domestic policies to international requirements for monetary stability in light of the emergent euromarket, thus indirectly contributing to the collapse of the Bretton Woods system. It is clearly plausible that the events which lead to this collapse could repeat themselves in the future if we rebuild a fixed exchange system pegged to any currency.

For its part, the United States, the world's premier military and economic power, would not accept any other nation's currency as the international standard. Recall that, after the Gulf war, the sheikhs abandoned their intention to have the price of a barrel of oil quoted in ECU's [Vittori (1992)]. No matter how you look at it, a gold standard regime is unlikely to rally political unanimity, quite aside from the technical difficulties inherent in its implementation. Others have suggested the creation of currency zones based on the dollar,

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the yen, or the euro, such that countries may join a zone of their choice and then peg their currency to the dominant money. A concrete example of this alternative is the fixed parity between the CFA franc of the West and Central African countries and the French franc. This system will not, however, necessarily create exchange rate stability. First, the dominant currencies will fluctuate among themselves. Second, as Frankel (1996) observes, alluding to the devaluation of the CFA franc in 1994 after a long period of stability, in practice nothing is permanently fixed.

A composite currency, such as the SDR, does not constitute an appropriate standard for the aforementioned reasons. All in all, proposals to reform of the current monetary system on the basis of a fixed-rate regime all run up against one major problem, finding a suitable reference commodity or currency. Cooper's solution, the creation of a central bank with a shared currency, holds some interest and merits further examination, so we shall return to it after completing our review of the other reform proposals.

Flexible Exchange-rate regimes

Target Zones or Managed Floats

A system with target bands allows for exchange-rate fluctuations within a sufficiently broad range. This was how the Bretton Woods system was supposed to work, except that the band was too narrow (variation of ±1%). Williamson (1985), a fervent defender of this position, ascertains that an exchange rate may diverge substantially from its long-term equilibrium level, defined as the rate which generates a surplus or a deficit of the current account equal to the flow of capital. One of the goals of economic management would be to guide the exchange rate back to its long-term equilibrium value. To achieve this, Williamson proposes the following five elements:

> An adaptable zone rather than a firm commitment to maintain the exchange rate;
> 1. A total width of 20% for the band (10% variation either way), outside of which the exchange rate is subject to correction;
> 2. A flexible band reflecting the inflation differential and any outstanding balance of payments adjustments;
> 3. Publication of the target range;
> 4. Dissemination of the monetary policy, including that of

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intervening on currency markets to keep the exchange rate from moving out of the target range.

Williamson's third point requires some qualification; it may involve a country defending its currency within its chosen zone or simply shifting the zone. This proposed strategy is liable to revive speculation, while the original delimitation of the zones poses quite a challenge. In the absence of established norms, behavior will vary between countries, complicating any supervisory operations. In short, Williamson's target-zone proposal remains too arbitrary and, in the final analysis, does not differ all that much from a regime of complete flexibility. This has not dissuaded the Volcker Commission[10] from proposing this type of system of flexible exchange rates, without, however, venturing an opinion on the appropriate width of the band. Finally, the idea of "target zones," arising in academia, is not having much success penetrating the ranks of government, especially in the United States and United Kingdom.

Another proposal worthy of mention is that of a narrower band, like that of the European Monetary System (EMS) (±2.25%), with a provision for allowing greater flexibility to countries subject to inflation. In August 1993, the members of the EMS widened the band of fluctuation by 15%, to give themselves more room to manoeuvre in confronting the volatility of financial markets. This widening of the band was all Frankel (1996) needed to find proof of the impossible trinity: stable exchange rates, open financial markets, and independent monetary policy. It must be recognized that, along with the ECU, which served as a currency of reference, the German mark played a key role in the functioning of the EMS—assuming the same importance there as the dollar does on the international scene. Another difficulty with applying Williamson's target zones is the need for a common currency. Should the band be pegged to the dollar, the yen, the mark, the franc, etc., or allocated among them, and in what proportion? Practical difficulties and deficiencies of the ECU have prompted Europeans to opt for a common currency (euro).

Complete Exchange Rate Flexibility

[10] Cf. United Nations Conference on Trade and Development, World Investment Report, 1999.

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A great number of economists of global renown have proclaimed the virtues of flexible rates, including Friedman (1953), Frenkel (1976), Polak (1977), Hayek (1976), Johnson (1977), Bilson (1978) and other monetarists. Partisans of floating exchange rates have long maintained that markets are better able to determine the true value of exchange rates than are governments. In fact, the virtue of the flexible system is that it does not rely on a standard currency. Every currency is called upon to fluctuate on the markets in accordance with supply and demand.

Drawing on the work of Hayek (1976), the Gresham's law (bad money drives out good) is only observed in a fixed exchange-rate regime. Under a flexible regime, a depreciating currency loses its value in trade and is thus less demanded, resulting in good money driving out bad (representing a sort of inverse Gresham's law).

Since governments have appropriated a monopoly on the right to issue money, it is hoped that flexible exchange rates may help introduce some discipline and thus ensure a non-inflationary management of monetary policy. Moreover, a flexible exchange-rate regime should ensure stability because of the inverse of Gresham's law, since each central bank's desire to keep its money in circulation will provide a powerful incentive to rigorous monetary policy.

Karamouzis (1986) explains that the arguments usually advanced against flexible exchange rates do not merit serious consideration, namely: the resumption of inflation, the adjustment mechanism, overvaluation of the dollar, and substitution between currencies. As to the first of these arguments, the inflation/exchange rate spiral may be attributable to other causes, such as agents' expectations on monetary and fiscal policies, and can only last if these policies are accommodating. Nonetheless, the ratchet-effect hypothesis postulates that given the downwards rigidity of prices, deflation will not be as great in an economy with an appreciating currency as will inflation in an economy with a depreciating currency, so the global trend will be inflationary. However, Karamouzis (1986) concludes, as do Cooper (1987), and Krugman and Obstfeld (1991), that inflation and unemployment cannot be attributed to flexible rates. For example, the oil shock of 1973-74 triggered stagflation—it had nothing to do with flexible regimes. As to the adjustment mechanism, Karamouzis reminds us that we must inspect not only the current account, but also the capital account to evaluate the state of multilateral

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disequilibria. A country with a low savings rate can accumulate a current account deficit, as it will be financed with an inflow of foreign capital. Our ability to assess the validity of this argument depends on our access to reliable data on the capital account, which we currently don't have.

In any case, it has not been established that a fixed exchange-rate regime would have corrected these balance of payments disequilibria. Attempting to justify a pegged regime on the belief that the substitutability of currencies generates destabilizing expectations proves quite simply wrong. There is no empirical evidence for a high elasticity of substitution between currencies, and theoretical analyses have yielded ambiguous results on the degree of substitutability and its impact on stability [Girton and Roper (1981), Kareken and Wallace (1978), Wordford (1990) and Weil (1990)].

Since 1971, the year in which the current flexible exchange-rate regime began, we have observed volatility in exchange rates and interest rates due as much to rapid movements of capital and speculation as to the monetary policies of central banks. Somewhat unrealistically, it was believed that the exchange rate fluctuations which this system would generate could correct balance of payments disequilibria. Far from that, these disequilibria have become increasingly pronounced. In fact, studies by Thirlwall (1988), Triffin (1978) and Kaldor (1978) provide an excellent explanation of how, over the period of flexible exchange-rate regimes lasting from 1972 to 1977, five countries running a surplus (Japan, Switzerland, Germany, the Netherlands and Belgium-Luxembourg) consolidated their surpluses even as their currencies appreciated. On the other hand, five deficit countries (the United States, Canada, the United Kingdom, Italy and France) experienced both a deterioration in their balance of payments and a depreciation during that same period. Thus, according to Kaldor, the principal industrialized countries remained unaffected by the fluctuations in their effective exchange rates.

Beyond these theoretical considerations underpinning the rationality of flexible rates, it must be recognized that this system also meets the key requirement created by the fall of Bretton Woods, i.e. it is detached from the dollar as the standard. Nonetheless, despite flexibility, the current mechanism still imputes an important role to the dollar, to the point that in its bilateral consultations the IMF

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expects the Federal Reserve Bank to maintain the dollar's value. In fact, while the composition of international reserves has become slightly more diversified over the years, the dollar still remains dominant. For industrialized countries, the share of the American dollar in their reserves has increased from around 50% in 1993 to 64.3% in 1998, while for developing countries the American dollar has occupied between 54% and 60% of their reserves, over the period 1989-1998 [IMF (1999), pg. 133]. The American dollar can hardly be considered as good as gold any more, but its use remains widespread in commercial and financial transactions. Furthermore, many countries including many Latin American and Caribbean nations pegged their currency to the American dollar. Only the French franc rivals the American dollar as a reference currency, with fourteen countries in western and central Africa pegged to it. As Erichengreen (1996, p. 136) has reported, the U.S. Treasury Secretary John Connally has said: "It's our currency but it's your problem".

McKinnon's Proposal

McKinnon's proposal relies on a great deal of co-ordination of macroeconomic policy between countries. He distinguishes between two periods: transition and realization. During the transition period the three great economies: the United States, Japan, and Germany each manage the growth of their money supply so as to ensure stability of the exchange rate with each of the other two. For example, the Federal Reserve Bank conducts its monetary policy so as to stabilize the dollar vis-à-vis the mark and the yen. The same holds for the Bundesbank and the Central Bank of Japan. Also, these three countries jointly determine the growth of the global money supply in light of the evolution of GDP, velocity, and the prices of non-traded goods. An appreciation in the currency of any one of the countries is taken as a signal for it to increase its money supply while the other two reduce theirs. In this manner, the global supply of money grows at a more or less constant and non-inflationary rate. At the next step, the rate of growth of the domestic money supply in the remaining countries is coordinated with that of the global supply of money, and exchange rates are floated. We expect a currency to appreciate (depreciate) if the rate of growth of the domestic money supply is lower (higher) than that of the global money supply, previously established by the three lead countries.

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This proposal is not without its critics. First, let us note that it relies on a monetary approach to exchange rates, treating the money supply as exogenous and attributing the adjustment mechanism to purchasing power parity. However, owing to financial innovation this assumed exogeneity of the money supply is increasingly obsolete, while inflation may have many non-monetary causes. Finally, Anna Schwartz (1987) quite reasonably points out that McKinnon's proposal suffers from a lack of credibility. Schwartz asks "Could the U.S., Germany, and Japan—a trio without common cultural or political ties (unlike EMS constituents)—agree on a target rate for monetary growth of a combined aggregate ?" Moreover, the burden of adjustment, which is imposed on one of the three lead countries under this co-ordination, proves quite unequal. For example, given the enormous weight of the U.S. economy, a one percent increase in the stock of money in the United States would need to be compensated with a much greater decrease in the German and Japanese money supplies. Finally, even the idea of ensuring exchange rate stability by a policy of controlling the money supply runs counter to current practices, under which central banks rely on an indicator based on interest rates, which are fixed with respect to capital movements.

The Role of Guarantor of the Stability of the Financial System

The theory of the second best postulates that in the presence of market failure, welfare enhancement may be obtained by creating further distortions. It is nearly a cliché these days to affirm that financial markets left to themselves will not be able to withstand speculative attacks and exogenous shocks. Financial liberalization has dealt a body blow to the notion that central banks can resist a concerted attack on their currency.

Nevertheless, as O'Brien (1995) points out, the emperors (the central banks) have not yet ceded dominion over their territory in the face of the invaders (currency traders). The report of the Blue-Ribbon Bretton Woods commission, under the supervision of the former chairman of the Federal Reserve Bank Paul Volcker, recommends greater co-ordination of macroeconomic policies between countries in order to minimize the volatility caused by misalign exchange rates. Governments, in joining together to stabilize

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the market, can strike a serious blow against vandals, so that, indeed "...from time to time, the vandals may suffer severe losses because of their own self-confidence." According to Stiglitz (1999), "the evidence is that crises are intolerable... and we should design policies that are robust against a modicum of human failure."

One mechanism which has been proposed in response to this need to regulate the financial markets is the Tobin tax. It can be viewed as an effort to slip a few grains of sand into the cogwheels of international speculation [Eichengreen, Tobin and Wyplosz (1995)]. The authors estimate that "a tax of one-half of one percent would translate into a four percent annual rate in the case of a three month foray into a foreign market, and a higher rate for shorter stays." The Tobin tax on transactions on the currency exchange markets relies on the notion that speculators whose frame of reference is long term, like importers and exporters, aim for a rate of return as close as possible to the long-term equilibrium rate. Very short-term speculators, on the other hand, attracted by an immediate profit, exacerbate the volatility of exchange rates. This is why a tax, no matter how small, will tend to discourage short-term transactions without having much impact on long-term activity. A good critical assessment of the Tobin Tax is provided by Riggs and Velk (1999), who consider it as "a bad idea whose time has passed". Indeed, the effectiveness of the Tobin tax hinges entirely on the willingness of all countries to implement it. Already most bankers are hostile to the idea, claiming that this tax would only attack the symptom and not the cause, and that it would be unenforceable. Clearly, it could be evaded. The question of who would receive the tax also arises, since many transactions involve several countries (as many as six!). Furthermore, is the exchange market not likely to simply move into countries which don't collect the tax ? United Kingdom, which is where most foreign exchange transactions occur, is hostile to any measure aimed at controlling the flow of capital. Germany also appears to have considerable reservations about this tax. Whatever the impact of the Tobin tax on containing short-term speculation, it cannot completely ensure exchange rate stability since long-term transactions are hardly affected.

Pursuing this issue of control of the financial system, there are proposals for the IMF to play a role of prevention and remedy of financial crises. To that effect the IMF would ensure, as it already

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does, that the principal macroeconomic indicators of member countries are released to the public regularly and on time. The IMF would further monitor the quality of the data and publish its evaluation of each country's economic position. In other words, as in Minton-Beddoes (1995), the IMF would serve as a public credit-rating service for countries, providing economic and financial analysis along with risk assessment. To this role would be added that of expeditor for restructuring countries' debts or even that of judge and adjudicator presiding over bankruptcies—a role proposed for the IMF by the economist Jeffery Sachs. As judge, the Fund would impose a moratorium on debt repayment and apportion the liabilities and, of course, the assets.

This role for the IMF—credit-rating service and adjudicator presiding over debt restructuring—is essentially what it has been doing since the beginning of the crisis in 1981-82. Nonetheless, it forces the IMF to recognize its inability to ensure the stability of exchange rates and to abandon this field of activity. From this perspective, the functions proposed for the IMF will approach those of the OECD plus those of the "Club of Paris".[11] However, the generous conditions under which loans have been extended to the transitional economies of eastern Europe, and especially to the Russian Federation, contrast with the rigor of the structural adjustment programs imposed on the developing countries, creating the impression that this judge may not quite be impartial.[12] But is it not better to have an imperfect judge than none at all ? ... A variant of the proposal under which the Fund serves as guarantor of stability for the financial system is due to Soros and Camdessus. We shall describe it in some detail.

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[11] The Bretton Woods Commission, an ad hoc organisation of experts under the chairmanship of the former chairman of the U.S. Federal Reserve (Paul Volcker) in order to propose avenues of reform for the IMF.

[12] Krueger (1998, p. 1995) pointed out that the Fund has been recognized for its role as information providers and its intellectual leadership in research. Indeed, researchers in the Fund such as Robert Mundell, Sydney Alexander, Jacques Polak had played the leadership role in analysing the balance of payment questions. According to Krueger, the review of IMF Staff Paper fares very well in terms of the citations in the leading Economic Journals. Also, the Fund and World Bank have contributed directly (stage) and indirectly (sponsoring courses or formal training) to the training of personnel from many of member countries.

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Role of Lender of Last Resort

In this proposal, one of the roles traditionally played by central banks—ensuring the solidity of the banking system—is confided to the IMF. Financial *surveillance* and well defined and carefully framed prudential rules are necessary, it is believed, in view of the globalization of markets. The billionaire financier George Soros is proposing that the Fund should be transformed into an International Central Bank so as to prevent financial crises. It should act as a lender of last resort. For Soros, "if global financial markets are inherently unstable, we need a stronger regulatory framework rather than the dismantling of existing institutions". It should be stressed here, that Soros does not have in mind an institution like the U.S. Federal Reserve or the European Central Bank.

In his speech at the commemoration of the IMF's fiftieth anniversary, former Managing Director Michel Camdessus (1994) explained his proposal in detail. First, Camdessus reiterated the principle of defending the stability of currencies and surveillance already performed by the Fund as well as its technical assistance and training. Furthermore, Camdessus (1998) stressed the need for quota increase together with the new arrangements to borrow. At the same time, he expressed the opinion that *target bands of fluctuation* create problems for most countries owing to the difficulty of precisely determining the fundamental exchange rate. To ensure progress, Camdessus proposes the following:

> ...the establishment of a fast-disbursing, very short-term facility, which would help cushion the reserves of countries suddenly subjected to bursts of speculation in spite of policies that IMF surveillance has found to be appropriate.

Two major events underline the pertinence of this proposition for a lender of last resort: the EMS debacle in July of 1992, which discredited the thesis of the managed float, and the Mexican peso crisis together with the Asian crisis and the collapse of the rubble. Three principal objections can be raised to this type of reform. First, the IMF already has the job of lender of last resort, and it has not been able to fulfil this mandate. In fact, when the external debt crises of the developing countries exploded in the early eighties with the announcement of Mexico's imminent default on its debt, the

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difficulties encountered by the IMF's efforts to deal with this crisis did not pass unnoticed. Second, we may ask what new means of persuasion the IMF has acquired to raise funds from its primary lenders. How much would be required to counteract speculators ? Finally, assuming that the IMF has the necessary resources, can it in fact deploy them fast enough to help countries in need.

Camdessus' proposal alludes to the IMF sitting in judgement on national economic policies. However, it is not necessarily the case that the judgement on the performance and direction of a country's economic management exercised by the experts of the IMF will be any better than that of the market. The peso crisis and the more recent Asian debacle have made obvious the Fund's inability to anticipate these incidents. While the IMF did warn Thailand about the vulnerability of its financial system, the responsible authorities neglected to enact any corrective measures. The chief deputy director of the IMF (Stanley Fisher) himself recognized (1998, pg. 4) that the IMF could not foresee the virulence of the contagion or the spread of the Thailand crisis to the other countries of the region (Korea, Indonesia, etc.). In its annual report for 1997, the IMF goes so far as to pronounce Thailand's macroeconomic policies "healthy," and those of Indonesia "prudent," and this was only a few months before the crises flared up in these two countries. Prediction is not easily elevated to the realm of "science" from that of the "crystal ball." A great deal has been made of the surveillance exercised by the IMF and its necessity tool for coordinated policies and convergent macroeconomic results. Has this surveillance provided positive results ? Around what themes is it exercised ? In its recent article, Krueger (1998, p. 1983-2020) has mentioned three methods of analyzing the role of International Organizations: a) Incentives for potential gains from cooperation; b) Public goods and/or externalities associated with International transactions; c) Use of public choice theory for understanding the rationale of International Organizations. But according to Krueger, "none of these approaches have been developed significantly". And Dobson (1999) observed that Fund surveillance suffers from "insider – outsider" tensions.

Let us pause for a while on the question of co-ordination. Despite the break through of the economic literature, there are still limits to macro-economic policy co-ordination: lack of consensus on the true econometric model, costs of negotiations, problems of

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credibility and time-inconsistency. As Cooper (1986) and Feldstein (1998) raised the point, International co-operation is difficult, simply because there is no scientific proof to identify the disease to cure. Frankel and Rockett (1988) had reported contradicting results of twelve different models for simulating the impacts of co-ordination that have been performed at Brookings Institute. Therefore, one should not be surprised that the Fund's surveillance with its economic advises is contested. According to the Managing Director, the advice given by the Fund to the industrialized countries has created conditions for historically low inflation rates. This item, the deceleration of inflation in industrialized countries, is the only positive contribution of the IMF's surveillance highlighted in the Managing Director's speech, aside from its contribution to an appreciation of the necessary conditions for the success of the EMS. In reality, the co-ordination of efforts to stabilize exchange rates—or we should perhaps say the value of the American dollar—was originally handled by the G-5 and then passed on to the G-7. At the summits of Rambouillet, Bonn, Versailles, Plaza and du Louvre in turn, actions were undertaken which reduced the role of the IMF to that of an information-clearing house [Hoffmeyer (1992), and Suzuki (1990)]. According to Eichengreen (1996, p. 151), the IMF played a surprisingly small role in these developments of the G-7 meetings. The IMF played no part in the creation of the EMS, nor in the construction of the European financial structure. Incidentally, we may recall that the monetary ambitions of the European Economic Community originated with the collapse of Bretton Woods [Lelart (1994), pg. 5-8)].

The rescheduling of third-world debt, beginning with Mexico, also speaks volumes on the role played by the IMF. Successive plans to alleviate the debt crisis were first developed by the U.S. Treasury, whence the Baker Plan (from James Baker), the Brady Plan (Nicholas Brady), both of whom were secretaries of the U.S. Treasury, and whence also the Toronto, Houston, and Trinidad conditions adopted during sessions of the G-7. In short, history tends to bear out that the main thrust of economic policy is initially determined within the main industrialized countries. Thus, according to Henning (1996), the industrialized countries use the IMF to transfer resources to the countries of eastern Europe to avoid burdening precarious domestic budgets.

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Clearly, the IMF takes the initiative of providing all its members with advice on economic policy, which is expounded and commented in its annual reports. Before we can ascertain whether or not these counsels are followed we must know what they are. This information is obtained from the annual reports spanning a period of, say, the last decade; a period sufficiently long to allow us to appreciate the record of implementation of these recommendations. Thus, we observe:

Bilateral consultations of the Fund with the industrialized countries is primarily concerned with policies of macroeconomic regulation, that is: the control of inflation, the stability of the exchange rate, and deficit reduction. Little counsel is given as to the sources of revenues or expenditures. As soon as the question of budgetary management is raised, differences of opinions arise within the board of directors of the IMF.

As to the correction of balance of payments disequilibria, the Fund simply recommends that countries consult among themselves, without providing any additional tools. Thus, we should not be surprised at the U.S. threat to unilaterally impose sanctions on Japanese automobile exports at the beginning of 1995. In the case of the developing world, the Fund's recommendations, articulated around structural adjustment programs, acquire an aura of authority, since these countries need access to the credit facilities of the IMF and other multilateral organizations. But then, Feldstein (1998) pointed out, with clear vision, that IMF should avoid imposing detailed economic prescriptions on legitimate governments for the simple reason that there are disagreements about what should be done, even among respectful economists. For instance, Feldstein reminded us that "the IMF was created to defend and manage a fixed exchange-rate system that is now regarded as economically inappropriate and practically unworkable". In summary, it is obvious that the IMF's consultations constitute first and foremost a very complex process given the large number of member countries, and that these consultations cannot help but yield limited results. Moreover, the fundamental policies recommended by the Fund may fail to rally support when they are imposed upon member countries having been excluded from their elaboration.

Summary and Perspectives

The following table recapitulates the proposed reforms, from the

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THE MAIN PROPOSALS FOR REFORMING THE INTERNATIONAL MONETARY FUND

Type of Regime	Proposal	Author(s)	Advantages	Disadvantages	Compatibility with financial markets
Fixed exchange Rate	single currency	Cooper	System stability, easy price comparisons, no balance of payments problems.	Absence of political will, possibility of sub-optimal monetary policy,	yes
	gold standard	Mundell, Laffer, Hall	gold is a reference product in trade.	Difficulty fixing the price of gold, speculation on the price of gold, limited production of gold, absence of political will.	no
	Gold exchange standard	Mundell, Laffer, Hall		Triffin dilemma, Difficulty finding a reference currency, absence of political will.	no
Floating exchange Rate	Managed float or target bands	Williamson, EMS example	room to manoeuvre rate variations.	Speculation, rate volatility.	no
	Complete flexibility	Friedman, Hayek, Frenkel, Polak, Johnson	no reference currency required, very flexible.	Speculation, rate volatility.	yes
	Co-ordination 3 main countries: U.S., Japan, Germany	McKinnon	control of inflation.	Asymmetric burden of adjustment, rate volatility, difficulty co-operating.	no
	Guarantor of the financial system	Tobin, Dornbush, Eichengreen, Wyplosz	discourages speculation, controls bankruptcies.	Difficulty establishing and implementing the controls, rate volatility.	no
	Lender of last resort	Canadessus Soros Krueger	Prevents crises. turns over debt.	Limited resources in the Fund, speculation difficult to control, possibility of non-optimal *surveillance* policies, rate volatility.	no

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creation of a central bank to a simple credit-rating service of national risks. Central to the deliberations is the need to establish a new regime guaranteeing exchange-rate stability and a sound financial system without interfering with the dynamic operations of capital markets. Let us briefly review the two broad categories of proposals: fixed exchange-rate regimes and flexible exchange-rate regimes. Relatively few proposals are premised on the fixed exchange-rate regime, they are: gold standard, gold-exchange standard, and single currency. The gold standard and the gold-exchange standard cannot suppress speculation on the price of gold. Furthermore, the limited quantity of gold produced cannot match the enormous flow of goods, services, and capital. The complete flexibility regime has the advantage of being the natural outcome of from any failure to agree on a reform package for the IMF, but it creates extremely volatile exchange rates and is thus incompatible with the sought-after exchange rate stability.

The other variants of managed floats comprise hybrid systems (co-existence of pegged currencies, complete flexibility, partial flexibility) which are poorly adapted to the realities of financial markets. Beyond these various proposals, it is essential to refocus on the main issues in order to better evaluate competing systems. As Tobin (1999) explained, "the only viable exchange rate regimes in our increasingly globalized financial world are floating rates, on the one hand and irretrievably fixed rates, on the other." Indeed, with the globalization of financial markets, monetary policy must become more focused, in terms both of its indicators and of its macroeconomic impacts. Reliance on money aggregates (M_1, M_2, or M_3) becomes inappropriate because of the increasingly endogenous character of the money supply [Kaldor (1989), Moore (1989) and Solomon (1989)]. The principal indicator for monetary policy is henceforth the interest rate, the value of which may not always reflect the requirements of the domestic economy, but which may be imposed by external conditions and the need to maintain parity.

The loss of central banks' autonomy makes it difficult, even illusory, for them to attempt to pursue rules-based expansionary monetary policies to stimulate the economy, risking an inflationary spiral. Restrictive monetary policy will not necessarily result in low interest rates, but at least it will not contribute to inflationary pressures. Indeed, as economies are interdependent, the need for

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international co-ordination becomes stronger, thereby forcing national central banks to pursue control of inflation. As Rogoff (1985) explained : In an uncooperative regime, central authorities know that an expansionary monetary policy will lead to a depreciation of the currency and trigger inflation, which is to be avoided. In a co-operative regime on the other hand, an increase in the money supply may be matched by the partner countries, causing the exchange rate to remain unchanged while prices and wages increase. In summary, under a co-operative regime the incentive to fight inflation is undermined-unless, of course, the international arrangement is founded on a commitment to price level stability. In consequence, the limited room to manoeuvre that the central bank retains in the context of globalized financial markets basically consists of pursuing price stability and, naturally, serving as a guarantor of the financial sector. What purpose does money serve in this economy ? It maintains its functions as a medium of exchange, a store of value, a unit of account but should no longer be perceived as a tool of economic policy.

Hayek's theory (1976), in which he denounces the government's monopoly over printing money, is based on the principle that any motive for printing money other than to preserve its value is fundamentally inflationary. But the solution to this problem of managing the money supply will not be found in the elimination of governments' monopolies and acceptance of a plethora of currencies, precisely because the dematerialization of financial markets restarts the debt-inflation spiral and undermines the solidity of the system.

Given these facts, can Cooper's idea of turning the IMF into a central bank still be credible ? Not necessarily, and for the following reasons. Clearly, the advantages and disadvantages of a single currency have been extensively commented in the economic literature, not least at the signature of the Maastricht treaty. By way of a review, a single currency results in the de facto elimination of the foreign exchange market, serves as a common unit of accounting, permits easy price comparisons and performs double duty by lowering transaction costs and reinforcing discipline and credibility in matters of monetary policy [Cohen (1989), Giovanni (1990), the Ernst, Young, et. al. report (1990)]. Primarily, a single currency does away with the need for balance-of-payments accounting, which, it should be noted, has been made quite precarious by capital flows. Among the

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disadvantages, we observe the loss of autonomy in matters of monetary policy, macroeconomic instability, and the difficult task of sustaining an optimal policy confronting the issuing institution.

Incidentally, this subject has given rise to a whole branch of theory (the theory of optimal currency areas) that lays out the conditions necessary for the formation of that type of regime: mobility of factors of production, openness and size of the economies, industrial specialization, similarity in the goals of economic policy, and flexibility of prices and wages. However, though pertinent, these conditions do not appear necessary for the creation of a currency union. Without digressing into a critique of the theory of optimal currency areas, we simply point out that the necessary parallelism between the evolution of the economy and monetary co-operation is not solidly supported by empirical evidence. For example: in the case of the European Union, directives for convergence may be clear, but their credibility depends upon how realistic the plans for implementation are. It is a foregone conclusion that the third phase of the Maastricht Project (adoption of euro) is enacted and will be enlarged upon, but this can primarily be attributed to political will, not the established rules of convergence.[13] In consequence, it is easy to appreciate Cooper's idea running into political obstacles. In fact, it is difficult to conceive how the United States, Japan, and probably the European Union, to name just those, would be prepared to subject their autonomy in monetary policy to a common authority.

These observations are sufficient to impose the conclusion that the choice of a floating exchange-rate regime is the only reasonable one, and that monetary policy should be designed to ensure price stability. What role can we then envisage for the IMF ? First, monetary co-operation on a bilateral or regional basis may be ardently promulgated simply because it represents the will of the prospective partners, regardless of any economic conditions for

[13] The IMF had to employ a mechanism which had gone unused for twenty years to help Russia: the General Arrangements to Borrow (GAB) which consists of borrowing from eleven member countries from the Fund at market rates, thus avoiding running down its own reserves. An exceptional aide package of $22.6-billion, piloted by the IMF, was already granted Russia in July 1998 for the period 1998-99. Bill Clinton, during his Moscow visit of September 2, 1998, promised Boris Yeltsin that the United States and the other economic powers would provide additional aid as long as Moscow followed the path of democracy, cleaned up its finances and pursued equity in taxation.

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convergence. Also, the IMF's activities, which are meant to promote exchange rate stability, reveal themselves to be of secondary importance and even fail to yield the anticipated results. In brief, of all the proposals for a major reform of the IMF, those advocating that it assumes the roles of a simple public credit-rating service for countries and of facilitating debt restructuring stand out as the most plausible; assuming, of course, that as a judge it demonstrates transparency, impartiality and humility.

Conclusion

The institutions of the international monetary system, defined at Bretton Woods and amended several times since then, are no longer fully consistent with the requirements of the modern economy, characterized as it is by rapid movements of capital. Most recent studies reveal the need for a new monetary framework. However, it is easy to agree on the need for a reform, but less so on its nature. In point of fact, the debate on the reform of the international monetary system remains polarized between advocates of a completely flexible system and those of a fixed rate system—and differences of opinion appear even within each of these camps.

Among the proposals advanced by advocates of the fixed exchange-rate regime, we find a single currency and a central bank, the gold standard and the gold-exchange standard. Proposals based on floating exchange rates are a little more varied, including: complete flexibility, Williamson's target zone, the EMS target zone, the lender of last resort, the Tobin tax, the guarantor of the stability of the financial system, the credit-rating service for countries, and the McKinnon approach with co-ordination between the three main economies. This study explained that there is currently no political will to return to the gold standard. Furthermore, this regime does not guarantee the stability of prices or exchange rates, and its credibility is undermined by the difficulty of fixing the price of gold irrevocably. The gold-exchange standard raises questions about the reference currency as well as posing the Triffin dilemma. There is no reason to assume that the events which precipitated the collapse of Bretton Woods could not repeat themselves. Reform proposals allowing for partial or total flexibility of exchange rates all have the major drawback of not achieving the one key goal, price stability. Aside from a system of total flexibility, all other proposals in this

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category constitute hybrid system which relegate the IMF to either a minimalist role (lender of last resort), or to an impossible task of co-ordination (the McKinnon proposal). With the globalization of financial markets, the essential goal of national monetary policy is maintaining domestic price stability and preserving the value of the currency. All of this leads us to favor a completely flexible system, leaving the IMF the task of serving as a national credit-rating agency and of facilitating debt restructuring.

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Politics versus Economics
A Comparison of Ghana and South Korea

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The ability of governments to promote development depends more upon cultural and political factors than economic ones. Political elasticity (PE) theory is used to analyze these factors. Ghana and South Korea are compared, underscoring the fact that economic activity is heavily affected by the political system. South Korea with its effective governmental machinery has been able to over-achieve economic expectations, whereas Ghana, with a weak and inefficient political system, has underachieved. While both Ghana and South Korea have suffered from corruption, Korean political reform is likely to be more successful. In Ghana, corruption takes the form of a political illness, rather than merely a political problem, and until this political illness can be addressed, any hope for significant economic progress in Ghana is unlikely, regardless of the policies the government may be persuaded to undertake.

Key Words: Ghana, South Korea, political elasticity theory, agricultural development, industrial development, corruption, foreign aid.

Introduction: The Weakness of Econommics

The editors (Krueger, De Long, and Taylor, pp. 3-5) of the Winter, 2000 issue of *The Journal of Economic Perspectives* point to the fact that, despite newer theoretical models, using better computers, mathematical and statistical approaches, and data, economists have failed to provide an unassailable foundation for long-term forecasts and anti-poverty policies. Economics, therefore, has never really become the "hard science" that it was expected to be. For example, one of the conclusions reached by way of economic theory - that the gap between poor and rich countries will ultimately diminish - appears sadly unrealistic.

Part of the problem, according to Professor Richard Thaler (2000, pp. 133-141), is the assumption of "human rationality." Since people do not behave in the "rational way" anticipated by economists, they

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undermine economic assumptions about "rational choice" and "rational behavior." Consequently, Thaler (2000, p. 140) advocates a closer linkage between economics and psychology: "As economists become more sophisticated, their ability to incorporate the findings of other disciplines, such as psychology, improves."

Perhaps because I am a political scientist, I would suggest that, while recognizing this psychological dimension and emphasizing it in my conclusion, the current weakness of economics has primarily to do with the failure of economists fully to understand politics and to incorporate it into their thinking. This is perhaps understandable inasmuch as many political scientists also fail to understand their own subject, treating it as a "behavioral science," thereby neglecting "political software" considerations (as here explained). In any case, what is as important as "the determination of rational choice" is "the implementation of rational choice;" and this inevitably brings us into "politics" in its classical meaning: "the relationship of leadership to followership for the purpose of governance."

Because economists seldom understand the power of politics, their analysis of economic problems and opportunities can be quite misleading. When political leaders are as firmly committed to economic development as they were (and still are) in Korea, they can cause the most rational recommendations stemming from comparative advantage, cost-benefit, and other forms of analysis to appear mistaken and even ridiculous. In other words, they can achieve economic progress while disregarding the prevailing economic advice. This consept has been advanced by Alice Amsden, who points out that in the Korean case "getting prices wrong" has been a contributing factor to its amazing industrialization success (see Lim, 1999, p. 3).

On the other hand, when political leaders are opposed to rational economic management, they pay lip service to economic advice, but actually block it. For example, according to a World Bank division chief responsible for Ghana, in 1990 the Country Strategy Paper "was endorsed by senior management one day but the next day it was back to business as usual" (Armstrong 1996, p.127). In the case of Ghana, the "dirigiste/statist policies" are considered primarily responsible for the failure of economic development (World Bank OED, 1995, p. 18). Yet, Ghanaians, in resisting World Bank/IMF economic ideology, might cite the Korean experience in their defence. "Government-business relations in Korea have been characterized by

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strong leadership from a government that did not hesitate to intervene directly with markets by means of commands and discretionary measures" (Cho, 1994, p. 15).

Amsden (1994, p. 96) points out that state-guided capitalism has become controversial in South Korea, particularly because of the criticism of Korean economists influenced by the "conservative, anti-government Chicago school." The truth is, she concludes (1994, p. 113), there is no scientific evidence to back up the contention that either Japan or Korea could have grown faster with less government intervention. Chalmers Johnson (1994, p.74) notes in this regard that neo-classical economic theorists who prevail at the World Bank and other organizations remain very defensive about the achievements of state-guided capitalism, "which they did not anticipate and still cannot fully explain using their purely economic concepts."

In comparing Korea's industrialization with that of India, S-C. Lee (1991, p. 470) suggests that Korean leaders were able to free themselves from orthodox or classical economic thinking only because they respected it. Korean leaders often distorted market incentives and disincentives to compete in the world market; but they were "pragmatic and bold enough to reform the entire incentive and economic management regime when circumstances dictated it."

In comparing Ghana and South Korea (as I will do in this article), I am especially interested in the underlying factors that account for the success and failure of development. Such factors are often missed by economists, judging, for example, by Michael Porter's excellent study, *The Competitive Advantage of Nations* (1990), which is concerned with the stimulating of rivalry among local firms, the formation of specialized suppliers and related industries, the development of advantageous productive assets, and the strategies used for aggressive international marketing. While this sort of analysis is useful in More Developed Countries (MDCs), it tends to be useless in Less Developed Countries (LDCs) where the underlying factors of production cannot be taken for granted. This gets us into the question of what has to happen for development to take place.

In answering this question, we will have to address a number of other questions that have arisen in social science literature, including: (1) why is it that economic globalization seems to be good for the development of some countries but not for others? (2) why is it that corruption is far more devastating for some countries than for others?

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and (3) how important is liberal democracy (including competitive elections, multi-party systems, and majority rule) for success in economic development and the reduction of corruption? The following comparison of Ghana and South Korea is particularly appropriate in this regard because (as of about 1960), these two countries shared similar levels of per capita income and socio-economic development. Yet, while both countries have been affected by globalization, corruption, and liberal democracy, Ghana's living standards remain dismal in comparison to South Korea's.

Political Elasticity (PE) Theory

At the World Bank, where economics is the prevailing religion, staff pay a great deal of attention to policy reform in their structural adjustment lending; but, as noted by Richard Moore (1995, p. 247), they have an unrealistic "understanding of the complexity of the institutional, political, and economic impacts that inhere in policy reform." This is where Political Elasticity (PE) theory can be useful, as suggested by the following propositions (see Werlin, 1998):

1. The more governments or those in authority can integrate and alternate soft forms of political power (linking incentives to persuasion) with hard forms of power (including disincentives and coercion), the more effective they will be.
2. As leaders integrate and alternate soft and hard forms of power, their political power takes on "rubber band" and "balloon" characteristics, allowing them (a) to decentralize or delegate power in various ways without losing control and (b) to expand their influence, reliably and predictably affecting the behavior of wider circles of citizens, participants, and subordinates.
3. Political elasticity depends partly on the selection of appropriate political hardware (including "objective" forms of organization, regulation, procedure, and technology) but mostly on political software (which has to do with the "subjective" quality of relationships between leaders and followers).
4. Political software can be made more effective in the commonsensical ways suggested by the steps associated with good governance: establishing acceptable goals, hiring qualified personnel, encouraging training, delegating responsibility, stimulating motivation and competition, paying attention to morale, expanding two-way flows of communication, promoting legitimacy, maintaining supervision, cultivating contractors, protecting independent spheres of authority,

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and developing conflict-resolution procedures. Inasmuch as any of these steps (with appropriate variations) is neglected or mismanaged, all reform efforts in both micro- and macro-administration are going to be difficult, if not impossible.

5. The enhancement of political software requires a balancing of two meanings of political power found in Sheldon Wolin's 1960 book, *Politics and Vision*, the struggle for competitive advantage and the struggle for consensus. These two meanings of politics (i.e., partisanship and statesmanship) can be considered as subdivisions (primary and secondary politics) of my previously-mentioned overarching definition of politics (which is also derived from Wolin's 1960 book): the relationship of leadership to followership for the purpose of governance.

Using PE theory, it is clear that the administration of South Korea is politically elastic; that of Ghana is not. The case studies presented in the next section should illustrate that fact. The reason, as I see it, has to do with the implications of political software and the reality that political software is far stronger in South Korea than in Ghana. This means that economic incentives are weaker in Ghana than in South Korea insofar as the institutional structures promoting them are less trustworthy, causing dysfunctional, though not necessarily irrational, economic behavior.

Whereas in 1960 the Korean civil service was viewed "as a corrupt and inept institution," by the 1970s it had "become one of the most reputable in the developing world" (World Bank, 1993, p.176). South Korea has followed the Japanese "best product" policy in public employment practices, selecting top graduates of Seoul National University for the majority of the senior positions in politically and economically important agencies (Kim, 1991, p. 321). While President Park during the 1960s and 1970s and President Chun during the 1980s surrounded themselves with "palace guards" (mostly classmates from the Korean Military Academy) and patron-client networks to satisfy partisan needs in various ministries, both balanced them with highly qualified civilians with advanced degrees in key economic ministries (Gibney, 1991, pp.72-73; Pae, 1992, p. 309).

Ghana, in contrast to South Korea, never escaped the elaborate patronage system set up by Nkrumah during the 1960s - linking officials (with their tribes, friends, and extended families) into webs of corruption (Le Vine, 1975). Corruption was intensified by the need of senior civil servants to provide favors in return for bribes because

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of inadequate salaries and institutional demoralization.

By 1972, the public sector contained nearly 75 percent of those in wage-earning employment; and it continued to grow at 14 percent per annum between 1975 and 1982. Thus, 60 percent of the government's non-debt current expenditure went for wages. However, by 1983 real wages had fallen to one-third of their 1977 value because of inflation. By 1983, even an upper level civil servant earned less than one-fifth of the amount needed for a minimum acceptable diet for a family of five (Stewart, Lall and Wangwe, 1992, p.35). This also meant that the public sector had difficulty keeping qualified personnel. The Ghana Water and Sewage Corporation, which had 90 engineers in 1979, had only 20 in 1984 and no accountants. By 1982/83, nearly 50 percent of elementary school teachers and 80 percent of secondary school teachers were unqualified (Cobbe, 1991, p.105). The public sector generally, including schools, lacked adequate supplies and such facilities as electricity and telephones.

While some improvements in the public sector were noted in a 1997 official publication (Republic of Ghana, p. 25), the persistence of low morale was emphasized: "Personnel management fails to recognize the importance of expert knowledge and professional experience and does not provide either adequate rewards for high performance or sanctions against incompetence and inefficiencies." This publication goes on to point out (pp. 223-224) that until Ghana can compete with Asian countries in the quality of its labor force, legal and administrative systems, and infrastructure, it cannot expect to attract international investment.

A Comparison of Program Implementationm

A comparison of health and education statistics indicates just how great the disparity between Ghana and South Korea has become (see Suh and Yeon, 1992, for South Korea; Government of Ghana, 1997, for Ghana). A South Korean born in 1988 could expect to live to 70 years, as against only 58 years in 1965. In Ghana, life expectancy has declined to around 56 years at birth, partly because the incidence of diseases such as HIV/AIDS is on the increase. Whereas literacy is practically universal in South Korea, with 80 percent of students reaching high school, adult illiteracy rates in Ghana were 47 percent for women in 1995 and 24 percent for men. In rural areas only about a third of women or farmers are literate (Africa Region, 2000, p.13).

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Less than 30 per cent of Ghanaiian children reach senior secondary schools, and only about a third of these students are girls.

In Ghana, it has become fashionable to blame structural adjustment, globalization, and privatization for persistent poverty (average income dropping to US $360 in 1995, as against about $13,000 in South Korea) and unemployment (over 40 percent for adult males in Accra). Trade liberalization "has virtually flushed out local industries, forcing them to lay off their workers in the process" (Abban, 1993, p. 1350). Yet, as the following case studies indicate, this explanation is quite misleading:

Rural Development*: South Korea*. It was not until the late 1960s that the Korean government became seriously concerned about the income gap between rural and urban workers which, as of 1971, amounted to about 20 percent (Pye, 1988, p. 91). To overcome this gap, the government expanded four programs: price supports for producers of food grain; assistance for rural roads and other forms of infrastructure; the encouragement of high-yielding rice and scientific agriculture; and support for the Saemaul Undong Movement (a community development program).

Later programs were added to expand land consolidation, diversified farming, mechanization, new storage technology, high-yield breeds of livestock, agricultural credit and rural industry. Between 1965 and 1975, the consumption of chemical fertilizer more than doubled, almost all of it locally produced (as against 20% in 1965).

David Steinberg, a USAID official, describes the Korean government's rural development efforts as "the invisible hand in the iron glove" (1984, p. D-3). Under President Park, all aspects of grain production and distribution, including procurement, transport, storage, milling, and sale, were controlled by government. This control has persisted. "The government has the authority to import or export grain and can give orders to grain dealers, shippers, and processors, and to hotels and restaurants whenever deemed necessary" (Moon, 1991, p. 381). Yet officials realize that "people need to be persuaded to work with the government for the good of the country" (Kim and Leipziger, 1992, 31).

By 1986, farmers were earning about 88 percent as much as urban dwellers, indicating considerable progress despite continuing problems (Song and Ryu, 1992, p. 162). The difficulty of increasing rural income

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beyond this was by then apparent inasmuch as it ran into the need for expensive price supports, subsidies, schools, and medical facilities. Whereas agriculture comprised almost 50 percent of GNP in 1960, it was down to about 12 percent in 1990 (Song and Ryu, 1992, p. 167).

With the movement of population to urban areas (from more than two-thirds of the population on farms in 1960 to less than one-third by 1990), there is likely to be more mechanization, a shift to higher-value crops, and greater off-farm employment. As this happens, rural development here will increasingly resemble that of Europe and Japan. Already, "Korea has achieved the world's highest productivity of land by employing chemical- and labor-intensive production techniques" (D. J. Kim, 1996, p. 195). Despite the introduction of such innovations as a green-house farming system using Dutch methods, Korean rural development remains problematic, causing farm households to see a nearly twelve-fold increase in their average debt. In this regard, South Korea's current president D. J. Kim argues that much more could be done "to preserve agriculture while accommodating the basic principles of free trade" (D. J. Kim, 1996, p. 193). Consequently, he advocates, among other measures, better infrastructure, financial inducements for mechanization and technological developments, debt relief, and the expansion of cooperatives into processing and distribution. Yet, the failure of most rural industrial parks indicates the difficulty of overcoming persistent economic forces. Nevertheless, even *The Economist* (March 25, 2000, p. 15), while decrying trade barriers and price supports, concludes: "Agricultural innovation cannot flourish without strong institutions to deliver the goods." The fact that such institutions exist in South Korea means that leaders can appropriately assist farmers to cope with severe economic conditions, much as they do in regard to weather conditions.

Ghana In contrast to South Korea, Ghana remains dependent on agriculture for nearly half of GDP and export earnings and 70 percent of employment (Chhibber Et Al., 1993, p. 29). In rural areas the infant mortality rate is 30 percent higher and child mortality 20 percent higher than in urban areas. Lack of medical facilities in rural areas is only part of the reason for this. Of far greater importance is the fact that only 20 percent of the rural population (as against about 70 percent of the urban population) has access to safe water sources (Bahal ET AL., 1993, p. 25).

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Agricultural output has risen in recent years at an average rate of only 2 percent, as against a population growth rate of 3 percent per annum. The growth of food crops, livestock, and fishing output has been particularly slow. The inability of the government to significantly expand agricultural productivity clearly stems from underlying bottlenecks to rural development (Chhibber Et Al., 1993; Bahal Et Al., 1993; Republic of Ghana, 1997).

Perhaps most serious of all is the lack of feeder roads, of which an estimated 60 percent are in poor condition. This means that rural Ghana remains a "footpath economy," with farmers (most of whom are women) having to spend much of their time head-loading commodities. The government has not even helped provide fuel-efficient cooking stoves, small carts, wheelbarrows, and bicycles, which could also promote local artisans and small-scale industry. There is also an inadequate availability of simple equipment for conditioning, processing, and preserving of crops. And few farmers have access to irrigation, credit, fertilizer, insecticides, and other inputs taken for granted in South Korea. Because of the traditional tenure system (preventing individually-owned land), there is little incentive for land improvement and credit provision.

The research and extension systems remain uncoordinated and ineffective. Much of their staff is untrained and/or without funds and vehicles to get to the rural areas. Thus, horticulture export, which could be profitably expanded, is discouraged. And more severe problems, such as soil fertility loss, soil erosion, and deforestation (estimated to cost 4 percent of GDP per year) cannot be addressed. Because of poor transportation and storage systems, the cost of marketing food accounts for about 70 percent of the retail price of agricultural produce (Republic of Ghana, 1997, p. 106).

The Ghanaian government, unlike that of South Korea, has failed to mobilize the self-help efforts of rural areas. Although it embarked in 1988 on an extensive program of decentralization to District Assemblies (DAs), Ghana remains an extremely centralized country. All but about 2 percent of DA revenue comes from the central government. DAs generally lack qualified staff to do financial planning, budgeting, revenue collection, expenditure control, and accounting. The staff sent by the central government tends to be inadequate in number, unqualified, poorly paid, and rotated every few years without regard for local needs and personal preferences.

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Moreover, the performance of staff is seldom audited or supervised. Consultations with DAs are rare, even on budgetary needs.

Civil servants generally consider being posted in rural areas a hardship because of the lack of adequate housing, infrastructure, family services, and resources to carry out their assigned tasks. Especially unhappy are secondary and university graduates who are required to spend a year in villages doing low-level jobs (Peil, 1996, p. 56). They are seldom paid enough to cover accommodation and food. Consequently, officials are unable to inspire or facilitate the sort of cooperation essential for community development. Over the years, the Ghanaian government has attempted a variety of programs, usually with foreign aid, to help farmers. But none has worked well.

In 1975, for example, the government established the National Council on Women and Development (NCWD), particularly to help women in agriculture and agri-based enterprises inasmuch as women comprise much of the rural labor force. So far, however, according to a study by Chao (1999, p. 57), the NCWD has been ineffective for various administrative reasons: rapid turnover in leadership, unqualified staff, low pay, poor conditions of service, inadequate resources and mobility, etc. Moreover, women's limited access to education, land, appropriate technology, transportation, capital, and storage facilities makes it very difficult to help them.

Because only about half of Ghana's arable area is being cultivated, agricultural export opportunities are being missed. For example, while Ghana could be exporting more and better pineapples than Costa Rica, it managed only $5 million worth in 1994, as against $45 million worth for Costa Rica that year (Buckley, 1996, A12). Likewise, offshore fish stocks could be better utilized. Ghana's most lucrative agricultural product remains cocoa; but its share of the world market has dropped from 30 percent in 1970 to about 10 percent, without much likelihood of recovery. This situation is unlikely to change until Ghanaian leaders politically promote favorable economic conditions, as did their Korean counterparts.

Industrial Development

During the 1970s, both Ghana and South Korea attempted to link technical education to industrial development, thereby making higher education more useful to the economy, reducing the problem of unemployed graduates, and recovering some of the high costs of

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universities. This effort was also partly a reaction to the criticism of higher education in both countries: that universities were elitist and that the study of science or technology involved too much passive memorization and not enough problem-solving and experimentation.

In 1969, the South Korean government borrowed from the World Bank to create a network of vocational training institutions near industries, so that instructors could analyze the needs of these industries and experts from the industries could serve as part-time tutors. A Curriculum Research and Development Department within the Ministry of Education was created to facilitate the introduction of computer technology, new textbooks and equipment, a national testing service, and a "models of excellence" approach. By tying their vocational education system to five-year economic development plans and to manpower projections, the schools were able to find employment for 81 percent of their graduates and to keep drop-out rates low.

The development of industrial parks in South Korea has been facilitated by the domination of a small number of conglomerates (the Chaebols) along German and Japanese lines, together with a close partnership among government agencies, universities, and corporations. President Park developed a "reverse brain drain," attracting Koreans studying and working abroad to fill the top ranks of industries and research institutes (Clifford, 1994, p. 110). "Over a thousand scientists were repatriated with financial support from the government between 1968 and 1989" (Lall, 1997, p. 23).

According to Gibney (1992, pp.128-129), the government has been particularly concerned with the expansion of electronics, in which Korea (as of 1990) ranked fourth in the world. Pae (1992, pp. 126, 484) points out that the Daeduck Science and Research Center expanded from 1970 to 1990 to accommodate about 40 research institutes and three universities. By the end of the 1990s, about 5 percent of Korea's GNP went for Research and Development (R&D), which was considered "an unprecedented rate of investment in technological activity..." (Lall, 1997, p. 26). This investment supported the efforts of nearly 3,000 research establishments, including more than 1,000 R&D units in universities and colleges and 200 public research establishments.

In analyzing the implications of South Korea's industrial development, Lall (1997, pp. 31-32) suggests that "the design of

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structural adjustment programs has to be very different from the essentially neo-liberal approach recommended by institutions like the World Bank today." In looking at the Korean experience, economists must pay attention to such political factors as the determination of leaders to create skilled and independent bureaucracies and to overcome entrenched vested interests. In doing so, they can go on to generalize that the economic potential of countries rests upon these factors, thereby incorporating them into their theories.

Ghana's Technology Consultancy Center was set up in 1972 as an autonomous unit within the Kumasi University of Science and Technology. It received assistance from a number of sources, particularly the London-based Intermediate Technology Development Group. Much of its effort was directed at assisting a huge informal industrial area near Kumasi called Suame Magazine. Smillie (1986, pp. 10-12) described it as a dismal place where more than 40,000 workers struggled without reliable credit, water, sanitation, electricity, and roads, using rudimentary buildings, techniques, and equipment.

Employees in the small establishments (typically consisting of a master with three or four assistants) were industrious and enterprising but seldom knew much about materials, safety, or engineering. According to Smillie (1986, 11), "none of the workers understood how an internal combustion engine worked, making simple diagnosis, testing and maintenance virtually impossible."

Smillie (1986) gave several examples of Canadian and American foreign aid projects to expand or improve Ghanaian industrial parks during the 1970s and early 1980s that were frustrated or delayed by various factors, most important of which stemmed from governmental indifference. Ghanaian officials never even bothered to meet with a visiting Canadian team in 1982. This same discouraging situation persisted in 1993, according to Chhibber Et Al.(1993). As of 1988, only a third of Tema's industrial area (which was developed during the 1960s) was occupied.

During the 1990s, the average rate of growth of the manufacturing sub-sector has been about 2.5 percent (Republic of Ghana, 1997). The share of manufacturing in Ghana's GDP remains at around 10 percent. This slow growth is attributed to governmental discouragement, according to a 1994 survey (Jebuni , 1994, p. 65). "Business opportunities were constrained by the presence of public enterprises with powerful political connections" (Leechor, 1994, p.

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177).

Without a well-functioning legal system, Herbst (1993, p. 162) points out, which can ensure individual rights and provide a credible means of resolving conflicts, the Ghanaian investment climate remains unattractive. After the 1992 election, the President urged Ghanaians to avoid products made by companies supporting opposition parties (Buckley, 1996, p. A13). Several of these companies were nationalized, including the nation's largest tobacco company, with some 1,000 workers. The ability of owners to fight such actions through law is doubtful.

The untrustworthiness of the banking system may account for the fact that Ghana's "savings performance is notably poor in comparison to all low-income countries" (Armstrong, 1996, p. 37). Moreover, the sort of "export mentality" that exists in South Korea has not emerged, indicated by the lack of an export credit facility, an export bank, and a system for exempting duties on imports needed to promote exports (Armstrong, 1996, p. 97). This partly explains the low level of foreign investment - about 4 percent of Ghana's GDP, as against 18 percent in South Korea during the 1970s and between 12 and 18 percent in Southeast Asia (Campos and Root, 1996, p. 123). In my opininon this is primarily the result of political ones. As the experience of North Korea indicates, people will not be productive if the political system discourages or undermines their economic behavior.

As it is, the government has not provided employment opportunity and a stimulating learning environment for the nearly 25,000 students enrolled in its three universities, six polytechnics, and seven colleges. According to recent estimates, only about 15 percent of the 250,000 young people annually coming out of the school system will find jobs (Chhibber, 1993, p. 25). They face the fact that in urban areas unemployment often exceeds 25 percent. Even those with degrees in science and engineering are discouraged. While business courses are popular, there are few jobs available and, for the reasons indicated, individual entrepreneurship remains extremely difficult.

Meeting the Challenges of Democracy and Corruption

PE theory uses three definitions of politics, derived from Wolin (1960): partisanship (the struggle for competitive advantage); statesmanship (the struggle for consensus); and governance (the quality of leadership needed to reconcile partisanship and

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statesmanship). This makes it possible to distinguish primary and secondary democracy and primary and secondary corruption.

Whereas primary democracy has to do with elections, multi-party systems, and majority rule (i.e., when there is a meaningful struggle for competitive advantage), secondary democracy refers to the consensus-building essential for successfully managing this competition. Primary corruption is my term for excessive partisanship or greed; secondary corruption indicates a governmental inability to control or mitigate this situation. As an analogy, we might think of basketball fouling under two situations: one in which there is normal refereeing, so that fouling is meaningful, punishable, and tolerable; the other in which refereeing is corrupt, causing fouling to be pervasive, essential, and destigmatized.

The coming of primary democracy to both South Korea and Ghana has clearly intensified primary corruption. President Roh (1988-93) in South Korea was particularly egregious in this regard, indicated by his indictment for collecting more than $600 million from major business conglomerates to use as a slush fund for political purposes (Quah, 1999, p. 489; Moran , 1999). Corruption of this sort continued under President Kim Young Sam, contributing to the economic crisis of November, 1997. At the same time, the persistent demand for political contributions ("quasi-taxes") is used by businesses to justify under-reporting of income (Park, 1994, p. 221).

In Ghana, "the poor economic record since 1992 leaves an impression that the successful implementation of structural adjustment may not be compatible with the emergence of a democratic government" (Jeong, 1998, p. 223). While between 1988 and 1992 the Ghanaian government managed to link public sector pay increases to a measure of productivity, it ceased to do so prior to the 1992 elections, with the implicit justification that "if the international community wants us to have elections, it will have to pay for them." In October 1992, the government agreed to raise the average government service pay by about 80 percent, causing average real wages to go up 20 times the gain in per capita GDP and a deficit of about 5 percent of GDP (Leechor, 1994, p.165). Benefits were also increased for non-civil service workers in agencies funded by the budget. This caused the prices of many goods and services to rise by as much as 100 percent (Jeong, 1998, p. 223).

In January 1995, the government granted a 52 percent increase in

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the minimum wage under labor union pressure (Berry 1995, xxxvii). These additional "wage shocks" were again given, not to facilitate better administration but to gain popularity in anticipation of the 1996 elections, regardless of the need for fiscal discipline and tighter monetary control (West Africa Central Department 1995, 48). This meant that the Ghanaian cedi had to be sharply devalued between 1994 and 1996, thereby reducing the benefit of partial debt forgiveness that foreign donors agreed to in June 1995.

As of 1990, 15 percent of South Korea's GDP was accounted for by the Chaebols (the conglomerates mentioned earlier). These were supported by a preferential credit system for long periods until they became internationally competitive (Singh 1999, p.128). A certain amount of corruption emerged inasmuch as "it was generally accepted for business to provide gifts, services and even cash for bureaucrats as a way of keeping relations with various ministries on a solid footing" (Cheng, Haggard, and Kang 1999, p.105). Their practices include use of corporate money for personal purposes, cross-payment guarantees among subsidiaries, dubious book-keeping practices (for example, inflating sales or assets and deflating debts), false-names for bank deposits, and misuse of the banks (or financial institutions) for careless investments (see Shin and Ha, 1999).

Although corruption may be no less evident in South Korea than Ghana, it appears to be less dysfunctional because secondary democracy here is stronger, both indicating and causing a higher quality of political software. The reasons, as here suggested, include: (1) the use of soft forms of power (persuasion and incentives) along with coercion and intimidation; (2) the combining of meritocracy with patron-client relationships; and (3) the acceptability and enforcement of rules to control corruption. The following two examples may illustrate the greater existence of secondary democracy in South Korea than in Ghana:

Public Enterprises (PEs): South Korea.

While both South Korea and Ghana initially developed PEs for manufacturing, financial services, and public utilities, South Korea, unlike Ghana, eventually turned over almost all but public utilities (postal service, electricity, telecommunications, and railways) to the private sector (Shirley, 1989; Pae, 1992, p. 384). Whereas Ghana's 329 PEs provide employment for about 25 percent of its formal sector,

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South Korea's 90 PEs account for less than 2 percent of total employment.

Despite extensive privatization, South Korea's PEs continued (as of 1986) to possess about 15 percent of the country's fixed capital assets (Sakong, 1993, p. 80). To motivate a higher level of performance, the government introduced a bonus system (amounting to as much as three months' salary) in 1983, with the assistance of the Korea Development Institute. This bonus system included: (1) annual performance reports; (2) agreed-upon criteria and a system of scoring each criterion; (3) the use of outside experts, primarily from universities, as evaluators; (4) the publishing of rankings in the press; and (5) the use of the results to flag problems and deficient departments or divisions (Shirley, 1989).

This system is considered so successful that it is now being used in Pakistan and other countries. However, Sakong (1993, pp. 81-82), who helped develop the system, notes that other reforms were also essential, including more promotion opportunities for middle-level managers, greater autonomy and accountability, and elimination of redundant and rigid administrative controls and regulations. Otherwise, managers would not have felt so personally responsible for results.

Ghana

Ghana's privatization program, which goes back to 1988 (longer than any other African country), has been slow, with only 54 of 300 PEs fully divested by 1993 (of which the most successful and controversial was the Ashanti Goldfields Corporation), though others have been partially sold. "more than a decase afer starting to divest, only 25 per cent of public enterprises (by value) have been privatized" (Africa Region, 2000, p.4). Among the barriers to privatization are: shortage of financing and an active capital market, political interference, administrative obstruction, lack of accounting information, large liabilities, mutual fears and mistrust, and concern about restrictions and conditions (Drum ET AL., 1991; Sherif, 1993; Armstrong, 1996).

The redeployment effort has also largely failed, with PEs continuing to employ about 200,000, of which four-fifths in some cases have been identified as redundant (Leechor 1995, 179). Lack of funds for expensive end-of-service benefits (with US $25 million still owed to the 16 percent retrenched between 1986 and 1990) is

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considered a major impediment to downsizing. Opposition of Ghana's Trades Union Congress (TUC) is also an impediment to the retrenchment of workers employed in Ghana's PEs. Moran (1998) analyzes the dilemma faced by the Rawlings regime in its effort to overcome TUC opposition - that undemocratic methods may have to be used for economic reform, thereby undermining political reform.

The answer, as I see it in regard to reforming the PEs, has to do with taking the steps essential for political software development, which does require secondary democracy. While, as in South Korea, there are performance contracts and incentive bonuses, they tend to be meaningless because performance remains unmeasured and bonuses are given automatically. Indeed, PEs here survive in a discombobulated atmosphere, without much control over (or knowledge about) debts, loans, taxes, dividends, arrearages, grants, or other forms of governmental assistance and reimbursement requirements.

The Value Added Tax (VAT)

The effort to introduce a VAT (set at 17.5 percent of the price of many commodities and services) by Ghana's Minister of Finance Dr. Kwesi Botchwey in February 1995 could be considered quite rational. However, it was done carelessly, without proper consultation with business and community groups (Berry, 1995, p. xxxvii). It led in May 11, 1995 to the largest protest demonstration in Accra since the Rawlings regime came to power. Five people were killed and many others were injured. Eventually (June, 1995), the government was forced to return to a national sales tax before reintroducing the VAT at the end of the 1990s (hopefully, with more success).

South Korea, in contrast, introduced a VAT in 1977; but the government took two years to prepare for its implementation (Choi 1991). Nationwide tryout exercises were carried out on three separate occasions before the changeover to VAT. Along with a consultation and information program, it expanded and retrained its tax administration staff. A staff handbook was prepared in anticipation of questions by staff and taxpayers.

While difficulties and criticisms remain, VAT is considered relatively successful and an improvement over the indirect taxes it replaced. In the process, however, the government had to do what would even be more difficult in Ghana - replace the practice of

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bargaining with a system of record keeping and attaching price tags. Otherwise, there is no way to avoid large-scale tax evasion, such as exists in Ghana but is much less evident in South Korea.

Conclusion: The Struggle for Reform

Both South Korea and Ghana have experimented with the concept of "reinventing government" (associated with Osborne and Gaebler's 1992 book): privatization, private sector-public sector competition, debureaucratization, civil service entrepreneurship, and customer satisfaction (see deLeon and Denhardt, 2000). Administrative and economic advisors have combined to push this concept but without much success, particularly in Ghana. This is because, without improved political software (as explained in this article), the motivation for better economic as well as administrative performance does not exist.

While the message of this article is that politics is more powerful than economics in determining the pace and direction of development, politicians frequently do more economic harm than good. Especially in the promotion of private enterprise, politics inevitably brings with it corruption. This is because, as suggested by PE theory, capitalism is associated with primary politics (the struggle for competitive advantage). As such, it must be counterbalanced by secondary politics (the struggle for consensus).

In South Korea, the linkage between capitalism and corruption has come about (as noted earlier) because of the reliance on "chaebols". Insofar as the use of market-sustaining incentives and disincentives in promoting chaebols was seen as responsible for the financial crisis that struck South Korea in November 1997, requiring the most expensive IMF rescue operation (amounting to $55 billion), the criticism of orthodox economists seemed justified. Yet, inasmuch as secondary politics is better established in South Korea than Ghana, the South Korean government is, as here indicated, more willing and able to fight corruption.

Under President D. J. Kim, a number of important reforms have been carried out since his 1998 election: government reorganization to make the civil service more efficient and effective; the empowerment of external auditors, giving them more legal power to monitor corporate management in a transparent way; improved

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accounting requirements, including the recording of all intersubsidiary cash flow, sales, and subsidies; the banning of financial accounts under false names; better supervision of banking and non-banking sectors to prevent fraud and unauthorized practices; and the revision of labor law to allow corporate layoffs and flexible employment for restructuring purposes (see Shin and Ha, 1999). While these reforms are still too new for observers to be able to determine their long-term impact, they seem to be at least partly responsible for Korea's return to economic growth and prosperity following the 1997 economic downfall. In 1999, the economy grew by more than 10 percent, and it is expected to grow by at least 6 percent in 2000 (*The Economist*, March 18, 2000, p. 40). While there will be a need to refinance $70 billion worth of corporate bonds by the end of 2001, the ratio of debt-service levels to exports in only around 6%, compared to 20-30% in Thailand, Indonesia, and the Philippines (*The Economist*, October 21, 2000, p. 83).

With the return to prosperity of South Korea, along with a number of other Asian countries, economists seem to be more confused than ever regarding their economic advice, according to Moises Naim (2000), the editor-in-chief of *Foreign Policy* in Washington, DC. The recommendations associated with "market reform" (including trade and investment liberalization, floating exchange rates, elimination of import and price controls, and deregulation of the financial sector) have become controversial. "This means that in the next crisis we should expect that, again, policy responses will be largely improvised and the institutional arrangements to deal with it will essentially be ad hoc" (p. 521). Moreover, state-guided capitalism "can be regarded as being exceptionally valuable" (Singh, 1999, 129). At the same time, there has been a growing awareness of the importance of governance: "The obsession with crushing inflation, common in the late 1980s and early 1990s, has been substituted by the obsession with the need to curb corruption" (Naim, 2000, p. 521).

Reform has not been easy in South Korea; and there remains much bitterness about these reform measures and animosity toward President Kim Dae Jung (see *The Economist*, March 18, 2000, pp. 39-40). Yet, assuming that these reforms are sustainable, South Koreans may discover a greater compatibility than apparently exists in Ghana between democratization, globalization, and economic liberalization.

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Ghana, along with seven other African countries, has begun a pilot governance and anti-corruption program, in cooperation with the World Bank Institute and Transparency International (World Bank Institute, 1999). While their anti-corruption strategy recognizes the problems of weak political will, entrenched patronage, and inadequate adherence to the rule of law, it focuses largely on greater transparency in the use of resources, stronger parliamentary oversight of government expenditure, more power for the Auditor General and Ombudsman institutions, greater access to information, the repeal of criminal libel and sedition laws, and encouragement of public participation. Because Ghana (far more than South Korea) suffers from secondary corruption, the Ghana Integrity Initiative may not be going far enough.

My skepticism stems from the failure of the Economic Management Support Project carried out in Ghana at a cost of $15 million from the beginning of 1991 to the middle of 1998. According to an evaluation report (Africa Region, 1999), the main objectives of the project in regard to the civil service (downsizing, reforming the pay and grading structure, improving recruitment, strengthening personnel management practices, and upgrading training programs) were not achieved. For example, in the Policy Analysis Division of the Ministry of Finance, "computers were purchased, but the commensurate training in even basic spreadsheet skills was not acquired." The civil service thus remains overstaffed (including many ghost workers), inadequately paid and trained, unable to keep qualified staff, and without proper expenditure management and control. Moreover, the budget is inadequately computerized; economic and statistical publications are sporadic and untrustworthy; and debt management continues to be problematic. Along with opposition to decentralization, "the systems governing the management of the Government's financial resources are weak in areas such as monitoring actual expenditures, auditing, and clearly and consistently applying regulations (Africa Region, 2000, p. 14).

The 1999 evaluation report explained that the failure of this project was due to the fact that there was inadequate commitment to it: "In turn, this made the project outcomes very vulnerable to changes in the political climate" (*Africa Region*, 1999, pp. 7-8). As such, it was another example of a passive response "to pressure from external donors." A deeper explanation has to do with the

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patrimonial system that continues to operate within Ghana. As explained by Sandbrook and Oelbaum (1997, p. 619), "Pervasive clientelism and personalism have inevitably stoked the fires of corruption." Consequently, while Ghana appears to be "one of Africa's rare economic successes," all sectors of the economy continue to suffer, with the cedi losing half of its value (against the dollar) during the first six months of 2000 and reserves dropping dangerously low (*The Economist*, July 22, 2000, p. 46). Because of persistent corruption, the World Bank and the British government have recently withdrawn support for infrastructure projects.

In my book (Werlin 1998), I have indicated the steps that might be taken to treat the sort of "political illness" (my name for secondary corruption) that is suffered by Ghana. Here, I will end with the point mentioned in my book, that it is as hard to treat political illness as it is mental illness. In other words, just as social workers know that most homeless vagrants cannot be helped to become self-sufficient unless such underlying problems as alcoholism, drug addiction, and retardation or schizophrenia are addressed, economists need to recognize the causes and implications of political illness. This means that, by taking politics into account, economics can thereby become a more powerful and interesting discipline and, in so doing, return to its roots as a "social science" (Thaler, 2000, p. 134).

This conclusion clearly has implications for the World Bank's efforts to assist the poorest countries of the world. Economic assistance by itself has clearly failed to reduce poverty in much of the world, with almost one-third of the world's population living on less than $2 a day and onefirth on less than $1 a day (World Bank, 2000, p. VI). Consequently, there is at the Bank a growing recognition of the importance of public sector reform in bring about economic development. Between 1995 and 1997, 5.4% of Bank lending (amounting to more than a billion dollars a year) went for these projects, as against about two percent of Bank lending during the 1980s (Berg, 2000, p. 291). However, because these projects were introduced as part of structural adjustment lending in the form of a "conditionality," they were seen as a "donor import," which "undermined local ownership of the reforms" (Berg, 2000, p. 298). In the case of Ghana, as with other countries, conditionality has failed to bring about reform because "all of the pressures, mostly on the donor side, are to look the other way when conditionality is violated."

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(Kanbur, 2000, p. 415).

Because of the problems of using conditionality as a way of inducing administrative reform, I fear that debt relief, as it is currently conceived, will also be a failure. I therefore have in mind making debt-relief contingent on a competitive process after the amounts potentially available to each eligible country were announced. (Ghana would certainly be an eligible country inasmuch as its 1999 total external debt of $6.3 billion was about two and a half times the value of its 1999 exports of goods and services.) Each of these countries would be expected to determine its quantifiable goals, programs for achieving them, and timetable for doing so. Taking into account the governmental improvements of this country in comparison to those of other highly indebted or impoverished countries, evaluators would periodically announce how much countries would receive, together with justifications.

Transparency International, using its highly regarded Corruption Perception Index, might be employed to carry out the evaluations here suggested. The less successful countries would be invited to keep trying for complete debt elimination. The objective would be to make debt relief or forgiveness a "Prize to be worked for," rather than "a gift to be waited for." Unless linked to reform, I fear that the benefits of debt relief will be quickly wasted inasmuch as the leaders of poor countries persist in transfering far more to rich countries (often in the form of money laundering) than they receive in foreign aid.

Let me end by saying that I hope Irma Adelman (2000, p. 54) is correct, that development economics is returning "to the view held by classical economists that government must play a strategic role in economic development." Where there has been "leadership commitment to economic development" (as in South Korea, though obviously not North Korea), there is invariably high levels of socio-economic development and incomes (Adelman, 2000, p. 63). In Ghana (as here pointed out), this has clearly not been the case.

What I don't yet find at the World Bank is a strong enough willingness to link development assistance to this commitment. While I realize that promoting such commitment is a difficult (perhaps impossible) process, requiring countries to compete for international aid would at least be a step in the right direction. This approach at least deserves to be experimented with.

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Political Support in Postwar Lebanon as a Function of Social, Political and Economic Performance

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This paper measures political legitimacy in postwar Lebanon. In connection with this several aspects such as political efficacy, government responsiveness and satisfaction with public policy have been tested. The data were collected between March and April 1998 and come from a nationwide survey of 774 Lebanese. The findings disclose a Lebanese lack of politically efficacious feelings and indicate, also, the weakness of government responsiveness. Judgments about government performance differ about the policy area: discontent with economic, welfare and social policies contrasts with more a positive evaluation of public order and foreign policy. Finally, respondents exhibit little support for the existing government and would prefer to have its current form changed. The study derives its importance from the fact that billionaire Rafik Hariri, a three-time former premier, was again designated prime minister on the 22nd of October, 2000, two years after being ousted from power and blamed for the acute economic crisis. Hariri, who was denounced for his ambitious program of political reforms and economic policy during his first period in office between 1992 and 1998, is expected to reverse the country's economic decline under the outgoing government. While there are strong indicators that Hariri will continue his previous policy, the survey findings indicate the shortcomings that should be remedied if the new government desires to overcome the country's current political, economic and social problems.

Key Words: Lebanon, political legitimacy, Rafik Hariri, survey of Lebanese political attitudes, Lebanese political problems, Taïf Accord's aftermath.

1. Lebanon's Postwar Politics

With the conclusion of the Taïf Agreement in 1989, Lebanon succeeded in overcoming 17 years of civil war. In fact, Lebanese parliamentary deputies met in Saudi Arabia under Arab sponsorship and signed the "Document of National Understanding" or what is commonly known as the Taïf Accord. Based on the National Pact of 1943, this agreement altered the Lebanese constitution, introducing a new formula for the political distribution of offices. Inter-confessional communal living, democracy and a liberal economic

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system were the basic principles provided to the state. In addition to the introduction of internal reforms, the new constitution planned to extend Lebanese sovereignty over all its territory, ridding Lebanon of Israeli occupation and working out a formula for future relations between Lebanon and Syria.[1]

The implementation of the Taïf Agreement effectively ended sectarian violence in the country. Peace was restored, but the accord failed to ensure Lebanon's independence and disrupted the internal political balance between various communities. One of the key aspects of the agreement is the decline of the Maronite presidential power. Instead, the council of ministers, headed by a Sunni, was made the strongest institution at the expense of the head of state. In the parliament, the 6:5 ratio in favor of the Christians was changed to parity between the two communities.[2]

In addition to internal reforms, a major aspect of the agreement was that it acknowledged Syria's special relations with Lebanon. In fact, Syria became the main power-broker in post-war Lebanon. After 1990, Syria directly intervened in presidential and parliamentary elections, in the alteration of governments, in appointing ministers and in Lebanon's foreign policy. Parliamentary elections failed the task of political normalization and prepared very badly for the envisaged national reconciliation and integration. Election laws were tailored to fit specific political purposes for the benefit of those who approved of full cooperation with the ruling class and to the disadvantage of those who might be expected to resist. Designed to consolidate Syria's hold over the legislature, elections deprived important segments from genuine representation, marginalized all opposition and prepared the ground for pro-Syrian governments in the post-war period.

A controversial interpretation of the agreement enabled the Maronite president to perform the functions attributed to his office with Syrian backing, giving the impression that the Syrians directly govern Lebanon. Syrian influence was also great on the other two key positions: the prime minister and the speaker. As a result, instead of

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[1] Maila, Joseph. "The Document of National Understanding: A Commentary." Prospects For Lebanon. Great Britain: Oxonian Rewly Press, 1992.

[2] Salem, Paul. "The New Constitution of Lebanon and the Taif Agreement" *The Beirut Review*, Vol.1. No.1. 1991, p. 66.

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coordinating the power-sharing process and ensuring a proper implementation of the constitution, the three top political officials in the country monopolize decision-making in the country and representation of their respective communities.

Warlords were appointed to official positions, contributing to the malfunctioning of the institutions and thus to the malfunctioning of the political system. As a result, the distinction between public office and public concerns was blurred, severely limiting the state's ability to function autonomously. Lebanon's postwar politics became infected with a militaristic spirit, which makes it difficult for Lebanese society to acquire a political culture secure enough to serve as the new foundation for Lebanese identity. Scholars acknowledge that the post-Taïf political system favors two categories of people: traditional prewar politicians and militia warlords. The Taïf arrangement is then largely monopolized by those very groups it was supposed to neutralize.

The governmental objectives of rebuilding the country's shattered infrastructure and reviving the economy were placed in the hands of a Saudi-Lebanese businessman, Rafik Hariri, who was expected to bring profound social, political and economic changes. The Hariri-led cabinets, referred to by the local press as the "governments of salvation", were meant to restore confidence in the country, but accumulated most of Lebanon's $21 billion debt during his 1992-1998 drive to rebuild the country after the devastating 1975-90 civil war.[3]

Critics such as Paul Salem[4] identify a number of deficiencies in post- Taïf Lebanon: 1) the country lacks self-government, given the wide Syrian influence on the political process; 2) there is an absence of accountable officials, since in most cases former militia and communal leaders are manufacturing support for themselves through pressure, influence and money; 3) there is no separation of public from private interests among top officials in light of the next point; and 4) corruption is deeply entrenched from the highest to the lowest levels of government, with no serious program to combat it.

General Emile Lahoud, Lebanon's new president, ousted Hariri in

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[3] *Financial Times*, August 18, 2000.

[4] Salem, Paul. "Democracy in Lebanon: Between Political Science and the Elections of 1996". The Parliamentary Elections of 1996 and the Crisis of Democracy in Lebanon. Beirut: Center for Lebanese Studies, 1998. pp. 521-522.

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a Syrian-directed power shuffle and blamed the acute economic crisis in the country on Hariri's ambitious reconstruction program and waste. While Lahoud pledged to punish corrupt politicians and civil servants (mainly those who had close links to the former prime minister), the newly appointed government failed to stabilize and reduce Lebanon's debt and to promote economic growth. In Lebanon's general elections in summer 2000, roughly half of the 128 seats at stake went to Hariri's allies, allowing him to regain the prime minister position in October. The distribution of key economic posts in the new cabinet is a strong indication that the prime minister will continue his previous economic policies, which included a multibillion-dollar reconstruction program that shackled the country with huge debt. Nevertheless, referred to as "the government of reconciliation and development," the new government's priority is to lead Lebanon out of recession and restore confidence in the economy.[5] The government's ability to gain public trust depends on performance and its willingness to compensate for the shortcomings of previous governments.

2. The Methodological Aspects of The Study

2.1 Relevant Theoretical Considerations

Scholars point to the importance of political efficacy and political responsiveness for predicting the performance of political systems. In the context of a democratic culture, a sense of political efficacy (a citizen's perception that he can influence the political process) should be relevant for political support. It is the feeling that political and social change is possible and that the individual citizen can play a part in bringing about this change.[6] Political responsiveness, in contrast, refers to a citizen's perception that his attempt to exercise political influence will prove successful[7]. Arthur Miller asserts that the performance of political office holders and institutions determines their legitimacy. Accordingly, Miller stipulates that low political responsiveness or low political efficacy indicate a situation of widespread basic discontent and political alienation. When large

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[5] *The Daily Star*, Lebanon, October 27, 2000.

[6] Gamson, W.A.Power And Discontent. Homewood, Dorsey, 1968. p. 42.

[7] Kornberg, A. and Clarke, H.D." Political Support in a Representative Democracy." Citizens and Community. Cambridge University Press. 1992, p.93.

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segments of the public have unfulfilled needs and blame the government for the unsatisfactory quality of life they are experiencing, a strong potential for political change exists[8]. The persistence of the widespread mistrust of government suggests that the normal means by which conflict is managed in the political system are not fully cooperative. In sum, utilitarian as well as expressive motives underlying feelings of attachment to the political system, and the failure of governmental policy to fulfill the needs or meet expectations, result in the erosion of political legitimacy. He concurs with David Beetham that the legitimacy of the state and support on which it relies are affected through the manifest failure of performance in fulfilling essential purposes; i.e., social, economic, welfare and security needs[9]". Given the belief then that the activities of the government are important, it is not surprising that citizens in Lebanon make judgments about how successful the government is in carrying out these activities and that the latter, in turn, have significant consequences for political legitimacy.

2.2 Research Variables

In this study, an empirical assessment will be provided concerning how Lebanese respondents perceive their government in terms of efficacy, responsiveness, and performance. The purpose is to evaluate the political legitimacy of the Lebanese system in view of the theoretical writings and attitudinal consequences of prolonged negative feelings of political efficacy, responsiveness and performance. For this reason, quantitative data were collected to test four variables: 1) feelings of political efficacy; 2) perceptions of government responsiveness; 3) judgments of government performance; and 4) legitimacy of the current government.

2.3 Sources of The Data

The data come from a quota sample of 774 Lebanese individual respondents who were interviewed in their own language. Seven interviewers conducted the interviews during March 1998 in an

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[8] Miller, Arthur H. "Political Issues and Trust in Government:1964-1970". *American Political Science Review*. No. 68, 1974, p. 951.

[9] Beetham, David. The Legitimation of Power. Macmillan Education Limited, 1992, p. 127.

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Table 1: Political Efficacy Scale (N=716)

	Christian Groups				Muslim Groups		
	Maronites	Greek-Catholics	Greek-Orthodox	Armenians	Shiis	Sunnis	Druze
	N=168 (%)	N=56 (%)	N=92 (%)	N=46 (%)	N=161 (%)	N=143 (%)	N=50 (%)
High	26	23	26	20	28	29	28
Medium	30	25	30	33	28	23	30
Low	44	52	44	48	44	48	42

* Percentages do not add up to 100 due to rounding

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atmosphere of complete confidentiality. Interviewers and respondents were from the same ethnic and religious background. The interviewers participating in this study were informed on the topic. They were trained to be objective during the administration of the questions, and never to interfere or try to influence the answers. In the selection of respondents, an effort was made to ensure that the sample reflected the actual representation of religious communities in the total population of Lebanon. Respondents from seven Lebanese religious communities were included in the study and were divided evenly between Moslem and Christian groups. The sample includes 315 female respondents (41%) and 459 males (59%). The frequency distribution of their age groups shows the following: 62% in the category 18-35 years; 20% in the category 36-45 years; and 17% in the category 46 years and above. The socio-economic status of the sample was also mixed, since 22% of the respondents reported belonging to the upper class; 40% were middle class; and 38% working class.

The actual breakdown by sect reflects the following distribution of respondents: 23% Maronite; 8% Catholics; 12% Orthodox; 7% Armenians; 23% Shiis; 20% Sunnis and 7% Druse.

2.4 Quality of the Data

In order to prevent systematic errors in this research, a pre-test was administered to 40 respondents of varying age-range and occupational background. As a result of the respondents' comments, some of the questions were rewritten in a clear and direct form in the final format of the questionnaire and some were deleted. But in general the respondents attested that the questions were interesting and easily understood. In order to avoid random error, the researcher tried to shorten the period of questionnaire administration, which was one month. This was intended to avoid sudden political change. After the compilation of the data, three tests of reliability were applied (congruence with reality, internal consistency and response bias). Validity of the scales was ensured through the use of the factor analysis procedure.

Analysis of the Findings

A. Political Efficacy

All Lebanese groups display relatively low levels of political

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efficacy. The internal political reforms introduced by the Taïf Agreement and the general political atmosphere in the country contribute to this feeling. Therefore, one could perhaps explain the findings by comparing them to the distribution of power positions under the previous system.

At every stage of their history the Maronites managed to accommodate the prevailing political conditions to secure a privileged position in the Lebanese political system. In fact their political culture, which stresses an independent Lebanon, granted them a dominant position in the state machinery through control of key security and political offices. With the ratification of the Taïf Agreement, the Maronites saw their power status diminished from a dominant position to a more balanced one.

Maronite grievances against the Taïf Agreement emanate from the claim that their share in Lebanese politics is not proportional with the special role they envisaged. They assign to the Maronite community a special mission: they defended the state during the war and guaranteed its independence and integrity[10].

The Maronite creed of Lebanonism, which emphasizes among other things individualism and insistence on the survival of the Lebanese democratic heartland, continues to influence Maronite thinking. But in practice, thanks to the cooperation of some of their representatives with Syrian officials, they were able to balance the loss of the community's formal influence. For instance, the Maronite President was able to perform almost the same functions that had been attributed to his office in the pre-war era by depending on Syrian support. This in turn generates mixed reactions among many Maronites.

The Druze, under the leadership of Kamal Jumblat - head of the Progressive Socialist Party – were staunch advocates of the abolition of political sectarianism. Because of their small number, Jumblat believed he could gain an important power-share only under a secular government. After his death, his son Walid was able by allying himself with Syria to preserve a privileged position for the community throughout the war period. In order to ascertain the value accorded

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[10] Tabar, Paul. "The Image of Power in Maronite Historical and Political Discourse." *The Beirut Review: A Journal on Lebanon and the Middle East*. No. 7, 1994, pp. 101-102.

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by Syria to the Druze, they were a key party – along with Shii and Maronite representatives – to the Tripartite Accord in 1985. Today, Jumblat assumes a monopoly of leadership inside the community because he was able to fulfill Druze political and social demands and continues to forge the call for a reduction of the link between politics and religion.

The Armenians regard the existence of a powerful government in Lebanon as a guarantee for inter-communal living. Consequently, through their wise alliance with pro-governmental lists and their ability to provide high voting turnout known as the "enbloc" for their allies, they hoped to preserve their economic interests and political independence. In post-war Lebanon, the Armenians have always taken a pro-government stand in politics. This was manifest during post-Taïf parliamentary elections, but the situation was reversed in the summer of 2000. Former Prime Minister Hariri succeeded in splitting Armenian political forces in Beirut, the capital. While their cohesive organization and territorial concentration increases their political weight, their split marginalizes their impact on election results. Therefore, anti-government Armenian candidates on Hariri electoral lists in Beirut outscore rival candidates but owe their victory to non-Armenian voters.

The Shii intermediate level of political efficacy is due to the growing Syrian role in Lebanese affairs, which favors a particular interpretation for the Shiis. Emerging as winners, the Shiis were not able to transcend their political and ideological divisions inside the community. Although numerically the largest Lebanese group, they did not succeed in translating their strength into political power. Shiite dependence on outside political and ideological powers, namely Iran and Syria, has increased their political efficacy. In contrast to Maronites and Druzes, the Shiis are under full foreign occupation: the Shiis in the South were subject until very recently to Israeli occupation and in the Bekaa have been under Syrian supervision. This partially explains their failure to articulate an independent policy for their community. But at least they have achieved greater visibility and enlarged participation compared to their marginalized position in the pre-war period.

The Sunnis witnessed an increase in their political status with the introduction of the Taïf reforms. Substantial demographic and socioeconomic change generated Sunni complaints against the

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political establishment. The failure of the government to meet their increasing demands and to ensure a more equitable distribution of wealth contributed to their increased sense of political inefficacy. They allied themselves with the Palestinians to extract political concessions from the Lebanese establishment. After the departure of the PLO, Sunni areas became subject of Syrian domination and were therefore unable to assume an independent political posture. The remarkable entry into politics of new Sunni political forces, namely Rafik Hariri, the period of uncertainty concerning the political control over Sunni Lebanon seemed to be at an end. In the parliamentary elections of 1996, Hariri won 14 of the 19 seats in Beirut.

The Sunni seats went to representatives of well-known Sunni families allied to Hariri. Despite forcing him out of office in 1998, Hariri emerged victorious in 2000, when election results indicated he had won 18 out of the 19 seats at stake in the capital (and over 43 seats of 128 at stake in the country). Recently, his strength was further demonstrated at the communal and national level when he obtained the greatest share of the newly formed cabinet with at least nine ministers (out of 30) directly accountable to him. And with the support of the Syrians, Hariri could take steps to carry through the election of the State Mufti, who from now on will be elected by politicians rather than ulama. The Mufti, in turn, will proceed with a reorganization of the Sunni religious institutions. He is supposed to transcend an entirely religious preoccupation to head a political community who speaks up for Sunni interests in the broadest sense.

While the distribution of top political offices among Christians and Moslems determined by the National Pact was always respected, the Greek-Orthodox were often misrepresented. The Greek-Orthodox feel that the proportional allocation of positions is unjust, and this enhances their traditional rejection of the Lebanese confessional system. Almost totally absent from the political scene during the 1943-1975 period. During the 1975-1990 period, the role of mediator was assigned to the community although it had little real political influence.

The relatively moderate level of political efficacy of the Greek-Catholics is attributed to the fact that they are perceived to manifest "sameness" with the Maronite community.

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B. Government Responsiveness

Table 2 shows that all groups manifest negative perceptions with regard to public officials' responsiveness. This could be essentially justified by referring to the Syrian postwar influential role in Lebanon.

Syria formally consolidated its presence in Lebanon through the Taïf Accord. A series of bilateral agreements, namely the treaty of brotherhood, cooperation and coordination between Lebanon and Syria, further strengthened the links between the two countries through joint councils that would elaborate and oversee implementation of policies regulating economic, political and military affairs. Lebanon continued to see pro-Syrian drifts in parliamentary elections, which brought many of Damascus's allies to power. Moreover, Syria's supreme role was demonstrated by the prolongation of President Hrawi's mandate in 1995 and the choice of his successor General Emile Lahoud in 1998.

The responsiveness of public officials to popular demand is closely related to Syrian policy in Lebanon and to its repercussions. Abu Khalil says "The insistence of the Syrians on rewarding clients [has] caused sectarian sensibilities. As a consequence of Syrian friendship or backing many unpopular Christian personalities were offered ministerial positions. This attempt among others was considered provocative for many Christians."[11]

The most striking aspect of the implementation of the agreement is that the ruling elite is continuously ignoring Christian grievances. Since the Taïf Accord went into effect, the group most targeted by the new order, which the agreement left behind, is the Christian political elite. This includes those who supported the agreement, such as Georges Saade (former president of the Kataeb party), who found himself pushed out of the government. Other examples of perceived targeting include the continued exile of General Michel Awn and former president Amine Gemmayel in Paris, the trial and imprisonment of Lebanese Forces Commander Samir Geagea and the disbanding of his paramilitary organization, a failed attempt to split Dory Chamoun's National Liberal Party by wooing his niece, and the

[11] Abu Khalil, Assad. "Determinants and Characteristics of Syrian Policy in Lebanon." Peace for Lebanon. Ed. Deidre Collins. Lynnee Riener Publishers, 1994, pp. 128-129.

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Table 2: Government Responsiveness Scale (N=729)

	Christian Groups				Muslim Groups		
	Maronites	Greek-Catholics	Greek-Orthodox	Armenians	Shiis	Sunnis	Druze
	N=169 (%)	N=60 (%)	N=93 (%)	N=47 (%)	N=164 (%)	N=145 (%)	N=51 (%)
High	14	13	11	17	20	23	29
Medium	36	38	37	36	42	35	35
Low	50	48	53	47	38	42	35

*Percentages do not add up to 100 due to rounding

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weakening of the Phalange (Kataeb) Party. By the same token, repeated pressures are brought to bear on the Maronite Patriarch – who regularly expresses Christian grievances, fears, and claims – to soften his criticisms. Khazen explains the reasons behind the targeting of the Christians" until Taïf, the Christians had been less vulnerable to outside pressures when compared to leaders of other communities, and partly there was continuous opposition to such pressures in the area they controlled. But since Taïf, things have changed, and the policy that was previously pursued toward the political elites in predominantly Moslem Lebanon is being duplicated today in Christian lebanon".[12]

Despite a noticeable effort to improve Christian representation in the parliament and the new government, Syrian-inspired events that are designed to break them down and to neuter them politically have crystallized Lebanese Christian grievances and continue to worry a substantial portion of the Christians, including the Maronite patriarch who continues to assume a negative position toward the Lebanese government.

In contrast, the Moslems' successful alliance with Syria has brought their community relative benefits. Among the Shiites, access to leaders of the Amal movement holding positions in the government (e.g. to the Speaker of the Parliament, various Ministers, and members of the Council of the South etc) continues to enable them to influence policy. The Taïf reforms incorporated in the Taïf Agreement seem to have impinged on the survival of clientelist practices. All Moslem respondents seem to be positive about Mr. Hariri's government, which is not serving the real interests of the entire population but is responsive to the Druzes, Sunnis and to a lesser extent to the Shiis.

While some restructuring of the political system has occurred under Taïf, there is little prospect of comprehensive political reforms while power remains in the hands of politicians on good terms with Syria.

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[12] El-Khazen, Farid. "Lebanon's Communal Elite-Mass Politics." *The Beirut Review*. No. 3, Spring 1992, p. 63.

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Table 3.Aproval of Government Performance

Performance Area	Economy (n=753)		Welfare services (n=752)		Social policy (n=756)		Public order (n=751)		Foreign policy (n=738)	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Approval	13	87	6	94	13	87	33	67	37	63
Maronites	10	90	2	98	14	86	26	74	45	55
Catholics	15	85	4	96	15	85	23	77	36	64
Orthodox	8	92	4	96	14	86	52	48	50	50
Armenians	17	83	7	93	19	81	43	57	63	37
Shiis	24	76	7	93	28	73	40	61	61	39
Sunnis	19	81	10	90	22	78	45	55	63	37
Druze										

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C. Government Performance

a. Social and Economic Policy

Developing countries, especially those in which the rate of internal migration is high, are unable to provide badly-needed public services. This situation is typical of Lebanon; bias in the allocation of resources by an excessively corrupt bureaucratic machinery has in the past resulted in serious disparities between Christians and Moslems. It is widely accepted that social disparities were among the possible causes of the Lebanese conflict in 1975. Recent studies indicate that the extent of the public sector's problems can be more readily understood in light of disparities in the fields of economics, social benefits and health.[13] New kinds of pressures are exercised on social conditions in Lebanon since 1992. Even where public services existed their prices were high (telephone communications, electricity, taxes...). Government measures, dictated by budget considerations, did not consider the low incomes of the middle class and lower income citizens (the vast majority), affected as these were by the war. Therefore, instead of calming the local climate and reducing inequalities, which have become more and more pronounced, government policies have polarized economic disparities and accentuated the concentration of wealth.

Hamdan warns that a larger social marginalization and aggravated poverty have become imminent dangers.[14] In addition, popular access to health care, education and housing services is more and more difficult. Poverty is manifest through the deterioration of the environment, and more generally through the degradation of living standards essentially attributed to the increased disparity between the level of incomes and the cost of living.

The war caused enormous devastation to social and economic conditions in Lebanon, and resulted in disruption of the adequate functioning of the public sector. While the population became poorer, income equalities increased considerably, and physical infrastructure was destroyed (electric lines, telecommunications). In 1992 approximately 50 percent of telephone connections were in service,

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[13] Najem, Tom. "Horizon 2000: Economic Viability and Political Realities." *Mediterranean Politics*. Vol. 3, No. 1, Summer 1998, p. 32.

[14] Roberts, John "Hariri: Renewwal and Relative Recovery" Meditarreancan Politics. Vol. 3, No.1. Summer 1998, p. 64.

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government rationed electricity to six hours a day, and most schools and hospitals and nearly a quarter of housing were at least partially damaged.[15]

It is well known that Lebanese Moslems used to complain about the inequity of their country's political system, which they accused of favoring the Christians. The relatively higher satisfaction among Moslem groups is related to their actual strong representation in the Lebanese government thanks to the Taïf reforms. Sectarian shifts in relative political strength in favor of Moslem groups have ensured a more equitable allocation of material resources available to the system. However, these resources are inadequate to reconstruct the war damaged economic infrastructure and to ensure the transformation of limited economic recovery in substantial general and sustainable growth capable of restoring the country's pre-1975 standard of living. [16]

If the Lebanese economy is to achieve a successful reconstruction in the eyes of the Lebanese people themselves, they will probably judge whether such a success has been attained not by referring to an outpouring of statistics but in accordance with whether they feel they have either gotten jobs or are likely to get a job, or by whether they have the relatively small amount of disposable income to purchase more than the basic necessities of life.

In Lebanon, much more has to be done about education, hospitalization, health care, housing, fighting poverty and social discrimination, unemployment, protection of local working capacities, and respect for public liberties and human rights.

There are one million poor in Lebanon today.[17] Thirty-five percent of all Lebanese families are unable to meet their basic needs, and over 7% of all families are severely deprived[18] Post-war governments have not had clearly defined social policies to combat poverty. State policy has concentrated on economic rather than social

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[15] Op. Cit., p. 31.

[16] Roberts, John. "Hariri: Renewal and Relative Recovery." *Mediterranean Politics*. Vol. 3, No. 1, Summer 1998, p. 64.

[17] Young, Michael. "Stability and the Poor." *The Lebanon Report*. No. 2, Summer 1996, p. 34.

[18] The study on living standards in Lebanon was conducted by The Ministry of Social Affairs and the United Nations Development Program (UNDP) and published in *Al-Safir* newspaper on November, 14, 1998.

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questions. The government has sought to reduce the effects of poverty and limit its spread rather than to neutralize its causes. Neemeh ascribes the deteriorating living standards of many Lebanese to the reconstruction process and social and economic policies pursued by the government.[19] In sum, the government has failed to develop an economic program, in addition to its failure to address social questions.

Among the government's policy failures are: 1) failure to implement a policy on unemployment to combat poverty, involving creating job opportunities and protecting labor markets: while unemployment is estimated to range between 12 and 16 percent in 1993,[20] non-Lebanese workers are estimated to amount to 1 million in 1998 and continue to grow at an increasing rate. Meanwhile, the number of unemployed is estimated to be growing at an annual rate of 75,000. 2) Access to primary and secondary health care facilities is limited because of their high costs, and most poor do not enjoy effective health coverage. 3) There is a failure to provide adequate public education and vocational training in terms of quality and enrollment. The Social Affairs Minister recently declared that the illiteracy rate in Lebanon stood at more than 13.6%.

Certain health services are provided by official bodies.[21] For instance, the Ministry of Health provides hospital health insurance for individuals who are not otherwise insured and the Ministry of Social Affairs provides primary health care. But these organizations operate in a vacuum in the absence of a coordinated national action plan for social policy.

Governmental policy aims at reducing its role in securing primary health care, basic education, and guarantees for the minimal requirements of life. This tendency is based on the notion that economic growth will automatically lead to an improvement of living standards without the need for state intervention. However, this policy has proved unsuccessful in the countries that have adopted

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[19] Neemeh, Adib. "Slipping Through the Cracks: Social Safety Nets in Lebanon." *The Lebanon Report*. No. 2, Summer 1996, p. 44.

[20] Haddad, Antoine. "The Poor in Lebanon." *The Lebanon Report*. No. 2, Summer 1996, p. 38.

[21] Ibid., Neemeh, Adib, 1996, p. 47.

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similar approaches.[22]

b. Public Order

The Implementation of the Taïf Agreement with regard to "public order" is perceived more positively by the Moslems (mainly Shiis and Druzes who had a militia structure during the war) than by the Christians, with the exception of the Armenians (who were not party to the conflict).

Initially, the Taïf Accord provided for the dissolution of the militias and the collection of their arms. While Christian "Lebanese Forces" had to hand them over, Hizbullah was allowed to keep its weapons in post-war Lebanon under the excuse of resisting Israeli occupation. Even though the Christians cannot accept being treated differently under this excuse, Hizbullah did not hand over its weapons after Israel's military withdrawal in May 2000. Disarming Hizbullah has become a Christian demand chich, if not met, threatens to reawaken the civil war. The underlying policy of the Accord was to restore a principle of winner and loser, which was the case also in Southern Lebanon. In the absence of any central state presence, the resistance movement assumed authority in the area despite public calls on the government to deploy the army in the liberated south.

Salem maintains that between 1992 and 1998 the government has pursued a policy of diminishing civil society freedoms and activities:[23]

> The government has banned all demonstrations indefinitely. The government does not allow for true freedom of association and assembly; it refuses to legalize any opposing "association" or movement.
>
> The government doesn't allow a free press and freedom of expression, because it controls and inhibits any opposing publication.

Thus the public remains disillusioned and fragmented, reacting to particular policies and events (e.g., the trade unions' demonstration against the large increase in gasoline prices in 1995), but without appropriate avenues of shaping political opinion. Malik argues that

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[22] Ibid., Haddad, 1996, p. 42.

[23] Ibid. Salem, Paul, 1998. pp. 521-522.

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the same measures were upheld under Lahoud and have even grown more dismal since. Accordingly, Lebanon no longer has a society that proudly distinguishes itself by a most sacred characteristic: the free flow of ideas.[24]

In sum, the government is credited with restoring peace in the country and with protecting the citizens, in the sense of providing physical security measures; but it is criticized for its control over, and sometimes ban on, civil liberties.

c. Foreign Policy

Damascus has successfully used its preponderance in Lebanon to ensure that the government in Beirut stays faithful to the Syrian approach to negotiations with Israel. Syria remains dominant and Lebanese officials unanimously echo the Syrian position. They vividly remember that the former Lebanese president Amin Gemmayel botched the 17 May 1983 Agreement[25]. The Lebanese government has apparently understood the implications of concluding a peace treaty with Israel without Syrian consent. In view of the demise of the 17 May Agreement, it is probably safe to assert that Lebanon cannot conclude a peace agreement with Israel without Syrian approval. Farid Abboud, Lebanon's ambassador to the USA, has succinctly explained his government's position on the matter of negotiating peace with Israel: "Negotiations toward a settlement, as far as Lebanon is concerned, should be conducted in close coordination with Syria, which remains faithful to the same principles. Lebanon already embarked on a road to a separate deal with the Israelis in 1983, with catastrophic consequences for Lebanon and for Israel and will not take it again.[26]"

Fares Boueiz, Lebanese Minister of Foreign Affairs during the presidency of Elias El-Hrawi, duly complied with the official line

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[24] Habib C. Malik, "From Damascus to Jerusalem: Lebanon and Middle East Peace," The Washington Institute for Near East Policy, Washington, 2000, p. 138. 25- Syria's punitive response took the form of reigniting the civil war in Lebanon, and quickly curtailing the central government's power in most parts of the country.

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[26] *Middle East Insight*, September 1999.

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Table 4.Evaluation of the Legitimacy of the Lebanese Government

	Do you think that the present government is legitimate? (N=761)			Do you think the present form of government should be changed? (N=754)		
	Yes	No	Unsure	Yes	No	Unsure
Maronites	8	84	8	68	12	21
Catholics	7	87	7	67	7	26
Orthodox	5	88	6	59	12	29
Armenians	10	79	12	62	8	31
Shiis	15	81	5	69	13	18
Sunnis	18	70	11	54	13	33
Druze	23	66	8	58	11	31

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concerning the unity of the two national positions on Israel. He defended close coordination between Syria and Lebanon on the ground that the the Lebanese negotiating position hinged on the principles of understanding between Damascus and Beirut.[27]

As soon as he left office, Boueiz became transparently critical of his country's political subservience to Syria. He implored the Lebanese leadership to define its vision and articulate its own stand on the issue of peace. Boueiz reprimanded Lebanese policymakers for dumping these responsibilities onto Syria and thus causing unwarranted over-dependence on Damascus.[28] He contended that a domestically discredited government could not hope to chart an independent foreign policy.[29] Independent sources stress that Lebanon will continue to play an integral but helpless part in Syria's wider strategy for recovering the Golan Heights.[30]

D. Political Legitimacy

Lebanese respondents who do not believe in the legitimacy of the present system of government maintain that change is needed. In an attempt to justify the results, a word should be said about political representation of the communities in Lebanon. On the governmental level, the Maronites, who earlier tended to monopolize key administrative posts, have lost this privilege under the current dispensation. of the Taïf Agreement. Under the Taïf Agreement, the Maronites feel politically underrepresented, alienated and excluded. Syria's military presence serves to maintain the actual balance of power, which does not allow Maronite equality. The Maronites argue that the National Pact of 1943 remains workable and that it could serve to regulate political life in Lebanon. Like all other Lebanese groups, they evaluate any arrangement in terms of the benefits they receive from the system. Under the National Pact, the Maronite community was able to maintain a "privileged position." The community is not likely to be able to assume a dominant role under

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[27] Hilal Khashan and Simon Haddad" The Coupling of the Syrian-Lebanese Peace Tracks: Beirut's Options" *Security Dialogue*, June 2000, pp. 201-214.

[28] Ibid.

[29] Ibid.

[30] Cherif J. Cordahi, ed., 1st Quarter 1999, Kent the Economist Intelligence Unit, 1999), p. 7.

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the present circumstances. Therefore, the Maronites tend to favor a decentralized option.

The best solution seems to lie in the creation of a federal state with complete administrative and political decentralization, which was a Maronite proposal during the Civil War. Despite an emphasis on a unified and united Lebanon characterized by a strong central authority, the Taïf Accord calls for administrative reorganization on the basis of geography.[31] The intention is to facilitate services to citizens and an equal regional development, on one hand, and at the same time to ease national integration and communal interaction. The intention in Taïf was not to favor the political stand of any community according to regional dominance but to help depoliticize the decisions of the central authorities.[32] Yet, this important part of the Taïf Agreement was not implemented. For the Maronites it would have been considered a substitute for reduced presidential power and a remedy to the prevailing geo-demographical disequilibrium. Most importantly for them, it would serve to guarantee the survival of the Maronite way of life, freedom of religious expression, and the Maronite vision of Lebanon and its history.

Following the collapse of public services in the wake of the destruction caused by the Mountain War in 1983, the Druze under the leadership of Walid Jumblat established a full-scale bureaucracy or "Civil Administration," to serve their needs. The idea of local regional administration, however, had its roots in earlier proposals and experiments. Kamal Jumblat believed that administrative decentralization would lead to a more equitable distribution of resources. The Druze civil administration collected fees and taxes and assumed governmental responsibility and hierarchy. The Taïf Agreement seems not to have satisfied the Druze political values, namely their quest for social justice. Freedoms and liberties explain also the Druze respondents' support for the system. Over the centuries, the Druze have defended fiercely their freedom against the incursion of central powers, and apparently the respondents still

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[31] El-Hoss, Dr. Salim. "Horizons of Perspective Change in Lebanon." *The Beirut Review*. No. 3, Spring 1992, p. 11.

[32] Maila, Joseph. "The Taïf Accord: An Evaluation." Peace for Lebanon? From War to Reconstruction. USA: Lynne Rienner Publishers, Inc., 1994, p. 35.

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support the idea of living freely according to their own beliefs and ways. The country is well-known for assertive behavior whenever the authorities jeopardize autonomous rights. The Druzes' hesitation to support the government emanates from their minimal gain in terms of political positions, administrative division or secularization.

The National Pact, which rested on the assumption of political partnership between Maronites and Sunnis, did not bring about stability to the country. Tension prevailed once it became obvious that the Christians were benefiting more economically and politically. Excessive political rigidity ensured the maintenance of the system's weak distributive capacity and contributed highly to the radicalization of the disadvantaged Moslem population. The consolidation of the power of the Palestine Liberation Organization (PLO) in Lebanon encouraged the Lebanese Shii mobilization. The government's attempt at improving the quality of living conditions and at providing social benefits was unsuccessful. This is best illustrated by their failure to assist the lower income members of the Shii community. In contrast, this explains the Shii search for alternative providers to compensate for unsatisfactory government services. For the Shii, Hizbullah turned out to be the most important provider of social services. Trendle attributes Hizbullah success not to the fundamentalist slogans it uses, but mainly to the comprehensive program of social services it implements:[33]

"A major reason for Hizbullah's successful move into the political main stream is the backing it has procured through an extensive program of social services for the Shia population in place of the scant assistance provided by the Lebanese government. Hizbulla has financed a wide-ranging welfare system in the Bekaa region that includes a free taxi service, sponsored supermarkets that sell food at reduced prices, and free medicine and hospitalization. Beirut's southern suburbs have also enjoyed similar services.

For Deidre Collins, Hizbullah's effective reach to people in need explains why the latter gave their allegiance to political factions rather than to the central government.[34]

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[33] Trendle, Giles. "The Grass Root of Success." *The Middle East*. February 1993, pp. 12-13.

[34] Collins, Deidre. "Peace for Lebanon? Reflections on a Question." *Peace for Lebanon*. Lynne Rienner Publishers, 1994, p. 301.

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The literature on Lebanese politics describes the Sunnis as the one group in the country whose communal interest transcends the boundaries of Lebanon to favor Arab unity or even an Islamic state. Despite the fact that they remained an unbelligerent community during the war, the Taïf Agreement enjoyed little legitimacy among the Sunnis until 1992, when Hariri became Prime Minister. Hariri enjoyed the backing of crucial sectarian forces like the Shii, Amal and Druze PSP in his plan for reconstruction. But although Moslem political representation increased, the Moslem rank and file still feel unempowered. Sunnis more than Shiites seek a form of government in which their interests will be better served. Support for the activities of Islamic groups, whether among the Shiite (Hizbullah) or the Sunnis (Jamaa) in Akkar, Tripoli and Sidon, is not surprising, even though it is not stropng enough to overthrow the existing government.

Conclusion

The survey shows that the Lebanese respondents generally felt deprived political power. Widespread alienation and dissatisfaction with public policy threatens to erode the legitimacy of the government. The Taïf agreement was meant to end the political stalemate and reconcile the Lebanese around a program of internal reforms. If properly managed, the Taïf political process could have faciliated the implmentation of a more balanced constitution, but instead a more selective interpretation has alienated a major sector of the population. The Accord ended sectarian violence in Lebanon, but failed to ensure the country's independence and disrupted the internal equilibrium between the diverse communities.

Nearly a decade after the end of the civil war, the country is still pondering ways to come to grips with the post-war situation. Incredible demands have daunted the successive governments since then, and the challenges escalate despite serious efforts aimed at economic reconstruction and political viability. On the 22nd of October 2000, Rafik Hariri was designated as Lebanon's Prime Minister as the candidate most likely to lead Lebanon toward economic recovery. But like its predecessors, the new government excludes some of the political factions essential to the consolidation of a national consensus, and its make-up is essentially similar to previous ones, with a mixture of old and new political figures representing the prime actors in Lebanese politics.

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The Post-Cold War American Interventions into Haiti, Somalia, Bosnia and Kosovo

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During the 1990s, the United States, in cooperation with its allies, intervened in several parts of the world, including Haiti, Somalia, Bosnia and Kosovo. Those four interventions in particular raise several questions about the policy of intervention. This article reviews the interventions and seeks to address the questions in light of them.

Key Words: United States foreign policy, foreign interventions, Haiti, Somalia, Bosnia, Kosovo, media accounts of foreign crises, humanitarian crises, political crises, conceptual basis for foreign intervention.

Early in the twentieth century, the United States intervened in Cuba, the Dominican Republic, Haiti, Mexico and Nicaragua without appreciable effect on the problems that existed in those countries. More recently, since the end of the Cold War, the United States (together with those with whom it cooperates closely) has intervened in many parts of the world. In this article, we will review the 1990s interventions into Haiti, Somalia, Bosnia and Kosovo. Following that review, it will be valuable to see how each intervention can be evaluated in light of certain questions they raise in common:

1. Whether the decision to intervene was in major part a response to sensational media accounts, leading to a selectivity that may have had little basis in principle.
2. Whether the problems that the intervention sought to address were in fact soluble.
3. Whether the intervention was undertaken with a clear vision of an outcome that was both achievable and desirable (or, as is often said, whether there was a foreseeable "end-game").
4. Whether there was conceptual clarity about the ends and the means to attain them.
5. Whether Americans had any profound understanding of the situation into which they were intervening.
6. Whether the intervention created animosities toward the United States that may make the world a more dangerous place for the United States and its allies.

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Review of the Interventions

Haiti

The Duvalier dictatorship was overthrown in 1986 and was followed by what Haitians call "dechoukaj" (uprooting), about which we are told that "mobs from Cite Soliel [Port-au-Prince's largest slum] and other miserably poor parts of the city roamed the streets, hunting down their tormentors, hacking them to death with machetes or burning them alive."[1]

In his recent book *The United States and Post-Cold War Interventions*, Lester Brune says that the overthrow of the Duvalier dynasty "did not change Haiti's authoritarian structure."[2] Conflict among four competing factions in the Haitian army, plus the terrorist "Tontons Macoutes" who had been the brutal secret police under the Duvaliers and continued to support the Duvalier faction, resulted in three coups between 1987 and 1990. Brune says that by mid-1990 "Haiti was near political anarchy."[3]

The December 1990 presidential voting resulted in the election of Jean-Bertrand Aristide, a young Roman Catholic priest who was a devotee of "liberation theology" and had supported the "dechoukaj." Aristide called for "a nationalist, socialist government."[4]

Aristide held office only seven months before he was overthrown in 1991 by an army junta headed by Lt. General Raoul Cedras. While Aristide was in office, his administration received United States and World Bank aid, but the organization Human Rights Watch reported that Aristide stood by with an "apparently ambivalent attitude" while mobs carried out 25 lynchings, including four "necklacings" (the grotesque burning of a person to death by lighting a gasoline-filled tire that had been placed around the victim's neck).[5]

After Aristide's overthrow, the United States continued to recognize him as Haiti's president (a reversion to the Tobar Doctrine, the previously abandoned policy that had earlier denied recognition to a regime brought into being by a coup d'etat), and an embargo was

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[1] Report by Paul Quinn-Judge, *The Boston Sunday Globe*, July 24, 1994.

[2] Lester H. Brune, *The United States and Post-Cold War Interventions* (Claremont, CA: Regina Books, 1998), p. 40.

[3] Brune, *Post-Cold War Interventions*, p. 42.

[4] *The Wichita Eagle*, October 15, 1994, p. 10A.

[5] *The Wichita Eagle*, October 15, 1994, p. 10A.

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placed against Haiti. The long-continuing tide of refugees setting sail for the United States increased enormously, causing the Bush administration to stop them in transit and return them to Haiti. During the 1992 American presidential campaign, William Clinton promised to re-install Aristide as president, but for almost two years after taking office Clinton relied on economic sanctions and negotiations to accomplish this. A Clinton threat in 1994 to send in 20,000 troops forced Cedras into negotiations with a team consisting of former-U.S. President Jimmy Carter, retired American General Colin Powell, and Senator Sam Nunn. Although the resulting agreement left the junta in place, Clinton immediately occupied the country with 23,000 troops in "Operation Restore Democracy" and returned Aristide to office.[6] All international sanctions were then lifted, and within five years the United States gave $2.2 billion in aid. (The total cost to the United States of the entire operation is said to have been $20 billion.)[7] The American troops were replaced by a United Nations "peacekeeping" force.

In a manner reminiscent of the problems that continued after the 1915-1934 American occupation, Haiti remains in serious difficulty despite this intervention and assistance:

- $65 million of U.S. aid spent under Aristide to develop a qualified police force failed to do so.[8] Abuses continued on all sides, with a series of political assassinations. In March 1995 a former legislator was shot and killed; and later that month an assassin in Port-au-Prince machine-gunned the woman who had been chief-of-staff under the army junta. Shortly before her death, she criticized the United States for intervening throughout the world without understanding "the realities of the countries involved."[9] In early April, U.S. intelligence reported that "hit lists" were circulating in Haiti that included 27 "political opponents of President Jean-Bertrand Aristide [who] may be targeted for assassination." A Western diplomat is quoted as saying that "these lists are a part of Haitian life."[10] The violence caused a three-week delay in scheduled

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[6] *The Wichita Eagle*, September 21, 1994, and December 18, 1995.
[7] *Middle American News*, August 2000, p. 4.
[8] Brune, *Post-Cold War Interventions*, pp. 58, 59.
[9] *The Wichita Eagle*, March 29, 1995.
[10] *The Wichita Eagle*, April 7, 1995, p. 4A.

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elections. Later that year, before the presidential election to choose Aristide's successor, "dozens of homes of suspected Aristide opponents have been burned or looted," an opposition radio station was attacked, and groups of vigilantes set up roadblocks. For his part, Aristide criticized the U.N. force for not disarming the various opposing paramilitary groups.[11]

• Rene Preval was elected in December 1995 and was sworn in as the new president the following February. This was the first time in Haitian history that an elected president handed power to another elected president. The Preval administration immediately reestablished diplomatic relations with Communist Cuba (which had been suspended for thirty years).[12] Later that year, the Los Angeles Times/Washington Post Service reported that "Haiti remains a violence-prone, corrupt nation." The Clinton administration sent bodyguards to protect Preval as he sought to purge his guard force of suspected political assassins.[13] After the 1997 parliamentary elections were declared fraudulent, Preval dissolved parliament.[14] A 17-month stalemate set in, preventing a budget or a functioning government. In January 1999, Preval began to rule by decree.[15]

• Parliamentary elections were held on May 21, 2000, after which the electoral council, controlled by supporters of the Aristide-Preval "Lavalas" party, declared that party's candidates winners of 16 of the 17 Senate seats that had been up for election.[16] The Organization of American States "declared the elections fraudulent,"[17] and this caused the international community to freeze millions of dollars of aid, leaving intact only the aid for humanitarian purposes. Lavalas supporters demonstrated in front of the U.S. embassy, a demonstration that included spitting on the American flag. New presidential elections will be held in December 2000, with Aristide himself again a candidate and expected to win.

• In the meantime, unemployment is at 70 percent, 65 percent

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[11] *The Wichita Eagle*, November 19, 1995, p. 10A.
[12] *The Wichita Eagle*, February 8, 1996.
[13] *The Wichita Eagle*, September 14, 1996, p. 8A.
[14] *Insight*, report by Catherine Edwards, July 17, 2000, p. 39.
[15] *The Wichita Eagle*, January 13, 1999.
[16] *Middle American News*, August 2000, p. 4.
[17] *Insight*, report by Catherine Edwards, July 17, 2000, p. 24.

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of adults can't read or write, an estimated seven tons of cocaine are shipped through Haiti every month from Colombia to the United States, the drug trade makes even wider the age-old division between rich and poor, there are continued assassinations and on-going violence; and "Haiti is the poorest nation in the Western Hemisphere," where "most people survive on less than a dollar a day."[18]

Somalia

To understand the labyrinthine complexity of Somali life, it is valuable to review Somalia's history since two former British and Italian colonies united to form an independent state in 1960. The new nation operated as a republic at first, but the political life of the new country became increasingly fragmented among a number of clan-based political parties, which Catherine Besteman writes "drew support from a patronage system well maintained by massive injections of foreign aid."[19]

In 1969 the republic was overthrown by General Mohammed Siyad Barre, who, with the support of the army and backed by the Soviet Union, set up a Leninist-style Communist state based on "scientific socialism."[20] Consolidating state power and seeking a nationalist unity based on social equality, Barre worked to abolish "tribalism" and clan distinctions.[21] This remaking of society was enforced by the public execution of prominent personalities when they spoke out against it.

Barre sought an enlarged Somalia that would regain land that had once been Somali. For that purpose, he invaded the Ogaadeen in 1977 to recapture it from Ethiopia. This forced the Soviet Union and Cuba to choose between what had been two Marxist client states, and Somalia lost the war when that backing was given to Ethiopia. This led Barre to cut all connection with the Soviet Union, and with the loss of that support his regime began to lose momentum. During the 1980s, an estimated $2.5 billion in Western aid flooded the

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[18] *The Washington Times National Weekly Edition*, August 14-20, 2000, p. 26.

[19] Catherine Besteman, *Unraveling Somalia: Race, Violence, and the Legacy of Slavery* (Philadelphia: University of Pennsylvania Press, 1999), p. 12.

[20] Brune, *Post-Cold War Interventions*, p. 14; Anna Simons, *Networks of Dissolution: Somalia Undone* (Boulder, CO: Westview Press, 1995), p. 47.

[21] Besteman, *Unraveling Somalia*, p. 12.

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country, but this began to dry up when eventually it became clear that Barre was continuing to govern by terror. Several resistance movements came into being based on clan identity.[22]

A rebellion against Barre began in 1988 and led to brutal retaliation highlighted by the massacre of "hundreds, possibly thousands" of worshippers by government troops on July 14, 1989.[23] By early 1991, chaos prevailed, producing widespread starvation. Barre was finally forced to flee on January 27, 1991, after which there was no functioning government. Two subclans vied for control of the large coastal city of Mogadishu, and fighting between them broke out in November, leading to approximately 30,000 killed by March 1992. As many as 13 clans and subclans fought each other for control of Somalia, and Barre's own forces, still active, won some victories.[24] Six days of all-out war in 1992, however, led to Barre's fleeing to Kenya. The depredations especially by Barre's forces added to the "growing mass starvation," which began to receive the world's attention as images of the starving appeared on television.[25] It is estimated that by March 1992 "at least 300,000 people had died of hunger and hunger-related disease... Some 500,000 people were in camps in Ethiopia, Kenya, and Djibouti. More than 3,000 – mostly women, children, and old men – were dying daily from starvation."[26] Besteman tells how "unarmed Jubba villagers starved, died, and fled by the hundreds of thousands as warring factions repeatedly swept across the [Jubba] valley, claiming food stores, material goods, and land as their right." She says, too, that "as in Bosnia, widespread rape emerged as a powerfully violent and brutally denigrating form of violence against thousands of Jubba valley villagers."[27]

The United States began airlifting almost 45,000 metric tons of food to Somalia in August 1992, but decided to intervene militarily when the transports were fired upon from the ground and a variously

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[22] Besteman, *Unraveling Somalia*, pp. 17, 200.

[23] Simons, *Networks of Dissolution*, p. 8.

[24] Mohammed Sahnoun, *Somalia: The Missed Opportunities* (Washington, D.C.: United States Institute of Peace Press, 1994), pp. 9, 11; Brune, *Post-Cold War Interventions*, p. 16.

[25] John Drysdale in *Learning from Somalia: The Lessons of Armed Humanitarian Intervention*, Walter Clarke and Jeffrey Herbst, ed.s (Boulder, CO: Westview Press, 1997), p.124.

[26] Sahnoun, *Somalia*, pp. 15, 16.

[27] Besteman, *Unraveling Somalia*, pp. 224, 18.

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estimated 10 to 80 percent of the food was stolen.[28] A U.S.-led "substantial multinational military intervention," called "the Unified Task Force" (UNITAF), began "Operation Restore Hope" in December 1992.[29] U.S. President Bush announced that this was "a 'strictly humanitarian' mission, limited in both scope and duration," and the initial desire was to maintain neutrality among the competing factions.[30]

What at first was purely a relief project was enlarged into an effort to reconstruct Somalia, however, when Madeline Albright, U.N Ambassador under the new Clinton administration, called for "the restoration of an entire country."[31] The result was the replacement of UNITAF in May 1993 by the "UN Operation in Somalia" (UNOSOM II), charged by UN Security Council Resolution 814 with the task that commentators speak of as "nation building." UNOSOM then sponsored a number of national and local "reconciliation initiatives," none of which was successful. An attempt to disarm the militias proved disastrous when one of the warlords, Mohamed Farah Aideed, ambushed a UN force, killing 24 Pakistani soldiers and mutilating and publicly displaying the bodies.[32] An attempt to capture Aideed led to the debacle of October 3, 1993, in which U.S. Rangers raided the Olympic Hotel in Mogadishu, taking 24 captives, but were pinned down for four hours in a fire-fight during which 18 Americans and one Malaysian were killed and a large number of others wounded, as well as two helicopters shot down. The injured body of U.S. Chief Warrant Officer Michael Durant was dragged through the streets. The Somalis themselves suffered "an estimated 312 deaths and 814 wounded."[33]

President Clinton immediately ordered the withdrawal of all U.S. forces by March 1994. The upshot, Ken Menkhaus tells us, was that "a frustrated UN Security Council, under pressure from the United States, opted to terminate UNOSOM by March 1995, leaving Somalia

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[28] Walter Clarke in *Learning from Somalia*, p. 8; Sahnoun, *Somalia*, p. 53.

[29] Preface to Clarke and Herbst, ed.s., *Learning from Somalia*, p. vii.

[30] Ken Menkhaus in *Learning from Somalia*, p. 42; Walter Clarke in *Learning from Somalia*, p. 3.

[31] Walter A. McDougall, *Promised Land, Crusader State*, p. 201.

[32] Brune, *Post-Cold War Interventions*, p. 30.

[33] Brune, *Post-Cold War Interventions*, p. 32.

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still divided by dozens of clan and factional conflicts and without a national government."[34]

Brune gives the effort credit when he says it "may have temporarily saved many lives," but he adds that "fighting among Somalian warring factions continued to cause food shortages and deaths long after they left." Aideed himself was mortally wounded in the fighting in July 1996, and "new contenders competed for power... throughout 1996 and 1997." Aideed's son Hussein joined Ali Mahdi, the leader of the other leading subclan in Mogadishu, in a "Declaration of Principles" in December 1997 for an intended reconciliation.[35] Since then, little world attention has been given to Somalia.

Bosnia

To understand Bosnia and American intervention into the war there, it is necessary to know the context relating to Yugoslavia in general, of which Bosnia was a part.

The Balkans have a long history of ethnic conflict. Sharp divisions have existed at least as far back as the end of the Roman Empire. Three major civilizations – Western, Orthodox and Islamic – come together there. Conquests, sometimes centuries-long occupations, and reconquests go back many hundreds of years.

What would soon become known as Yugoslavia was fashioned out of parts of the by-then-defunct Austro-Hungarian and Ottoman Empires by the Treaty of Rapallo in 1920 as the Kingdom of Serbia, Croatia and Slovenia. There were six states, based on ethnicity: Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia. Over some opposition, a Serb (Alexander) was made king. When in 1928 the leader of the Croatian assembly was assassinated, King Alexander suspended the Constitution and gave the country a new name, Yugoslavia, over which he ruled with dictatorial powers until his own assassination in 1934. A Regency came to power which provoked a revolution in 1941 by signing a pact with Nazi Germany. The Regency was overthrown and replaced by King Peter II, but the Nazis responded by invading, occupying the country for the four years until 1945.

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[34] Ken Menkhaus in *Learning from Somalia*, p. 43.
[35] Brune, *Post-Cold War Interventions*, pp. 33, 34.

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During those war years, two large guerrilla forces – Chetniks and Partisans – fought not only the Nazis, but each other.[36] Brune tells how, under cover of the war, "what followed were brutal acts of 'ethnic cleansing' inflicted on Slavs, Jews, and Gypsies by Hungarians in Vojvodina, by Bulgarians in eastern Serbia and Macedonia, and by Italians and Albanians along the Dalmatian coast including Kosovo." He adds that "the most brutal outrages were committed by Croatia's neo-Nazi Ustashe, led by Ante Pavelic, who... kill[ed] or deport[ed] non-Croatians especially Serbs and Jews. The number of Ustashe victims is controversial with estimates ranging from 350,000 to 750,000 deaths, plus 300,000 deportees."[37]

After the war, Josip Broz ("Tito"), Communist leader of the Partisans, won the elections held in November 1945, and established the "Federal People's Republic of Yugoslavia." Tito ruled for 34 years, maintaining an outward appearance of national unity in keeping with the Marxian idea that the common interests of the proletariat, not nationality, were paramount. After he broke with Stalin in 1948, it appeared to the world that he had accomplished a unique and independent form of Communism, based on worker ownership of industry and much more humane than the Soviet regime. Brune says, however, that "in reality, there was no genuine electoral democracy and Yugoslavia's economy was foundering" because of its dependence on Western aid and loans.[38] The six ethnically-oriented republics, to whom power had devolved through the 1976 constitution, had not really gotten along all that well, and their mutual animus became apparent after Tito's death in 1980. The economic failures led the federation into a crisis in 1987.

Nationalism had remained alive in Serbia, the largest of the republics, after World War II. Most Serbian literature expressed anguish over suffering and victimization. Sabrina Ramet says that by the 1980s the mood "was increasingly self-absorbed, self-righteous, and self-pitying."[39] We must, however, be careful; that sort of

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[36] Brune, *Post-Cold War Interventions*, pp. 65, 66, 67.

[37] Brune, *Post-Cold War Interventions*, p. 67.

[38] Brune, *Post-Cold War Interventions*, pp. 69, 70.

[39] Sabrina P. Ramet, *Balkan Babel: The Disintegration of Yugoslavia from the Death of Tito to the War for Kosovo* (Boulder, CO: Westview Press, 1999), p. 153. History shows that the mood of victimization she describes is a very dangerous one for potential opponents;

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commentary is clearly not empathetic, and the Serbs have a very different perspective, based on a good many objective facts in their history. For example, some very real wounds were opened in 1986 with the trial of Andrija Artukovic on charges of mass murder committed against Serbs. Artukovic had been the Minister of Interior, Justice and Religious Affairs in fascist Croatia during World War II.[40] Also in 1986, the Serbian Academy of Sciences and Arts provided the intellectual rationale for angry nationalism with a memorandum that became a centerpiece for Serbian thinking during the years that followed. It articulated the outlook held by Dobrica Cosic, whom Serbs see as their contemporary spiritual father. The memorandum spelled out how the existence of Serbs had been threatened during the war, and complained of discrimination by Slovenes and Croatians. It focused particularly on Kosovo, the historic heartland of Serb identity, where it saw a complete anti-Serbian genocide as underway. As a remedy, the memo advocated a Greater Serbia that would bring all Serbs into one state.[41]

It was here that Slobodan Milosovic, visiting Kosovo in 1987 as head of the Communist Party, became the champion of the Serbs there – and, much more broadly, the "protector of all Serbs." With this, he rose to the top in Yugoslavia, a position that gave him control over the Yugoslav People's Army (JNA).

As the various republics slid into conflict, Slovenia gained its independence in a brief, non-violent war. A powerful independence movement headed by Franjo Tudjman, an historian and former JNA general, gained power in Croatia, whose national aspirations had been suppressed by Tito in 1971. Croats saw themselves as Western and the Serbs as backward and Byzantine; they also saw Bosnia-Herzegovina as a part of Croatia, with the Muslims there being simply Croatians who in the long course of Ottoman occupation had allowed themselves to become Islamicized.[42] In the growing conflict,

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it lay at the heart of Nazism as an angry movement, and here we see it again with Serbia. The same mood has been assiduously developed among blacks in the United States during the half century since the beginning of the Civil Rights movement.

[40] Ramet, *Balkan Babel*, pp. 19, 20.

[41] Laura Silber and Allan Little, *Yugoslavia: Death of a Nation* (No city given: TV Books, Inc., 1996), p. 31; Brune, *Post-Cold War Interventions*, p. 71.

[42] Silber and Little, *Yugoslavia: Death of a Nation*, pp. 83, 86.

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Milosevic dispatched troops to assist the Serbs living in the Krajina region of Croatia, and to other places where there were Serbs. At first, the JNA was victorious, "ethnically cleansing" regions of all but Serbs; but Croatia gained, at least, international sympathy, which proved very important.[43] Ramet reports that "in Croatia, Serbs damaged or destroyed more than 500 monuments and historical buildings and more than 370 museums, libraries and archives," and adds that "both Serbian and Croatian forces targeted mosques in Bosnia-Herzegovina."[44] War raged between 1991 and 1995, beginning with the conflict between Croatia and Serbia and then becoming a three-way fight among Serbs, Croats and Bosnian Muslims.

By 1995, however, the tide had turned in favor of Croatia, which drove out much of its Serb population. Silber and Little say that "Croatia emerged, in 1995, with the backing of the United States, as the great power in the region." They add: "In an offensive tacitly encouraged by Washington and quietly ignored by the rest of the world, it swept away the self-styled Republika Srpska Krajina," leaving only about 100,000 of the original 600,000 Serbs there.[45] The European Union had in 1992 recognized both Slovenia and Croatia as independent nations.

During all of this, Milosevic had championed the Serbs within Bosnia (who had been 31.4 percent of the population, as compared to 43.7 percent Muslim Slavs, with the rest mostly Croats). Six Serbian enclaves were identified and supported militarily. Radovan Karadzic in Bosnia sought to establish a separate Bosnian Srpska [Serb] Republic. An election that was boycotted by the Serbs voted overwhelmingly in February 1992 for Bosnian-Herzegovinan independence. Shortly thereafter, Karadzic began shelling Sarajevo, and the war within Bosnia was underway.[46]

The United States under President Bush had been leaving it to the European community to solve the Yugoslavian conflict. It had supported the establishment of no-fly zones and a NATO naval blockade, and first became involved militarily itself when U.S. ships joined in the blockade in late 1992. The United States began to air-

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[43] Brune, *Post-Cold War Interventions*, p. 88.
[44] Ramet, *Balkan Babel*, p. 263.
[45] Silber and Little, *Yugoslavia: Death of a Nation*, p. 367.
[46] Brune, *Post-Cold War Interventions*, pp. 76-78.

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drop supplies to the Bosnian Muslims in early 1993, and supported the setting up of safe-havens for Muslim civilians. It worked out the Washington Framework Agreement in February 1994 that brought the Muslims and Croatians into alliance, causing the power-balance to shift against the Serbs.[47] In July 1995, however, there was no outside intervention to stop a Serbian massacre of some 8,000 Muslim men at Srebrenica, which was one of the six "safe areas."[48] Nevertheless, concentrated NATO air strikes in September 1995 led to a cease-fire, which in turn led to the Dayton Peace Accords that were signed in December. Twenty thousand U.S. troops were deployed immediately among the 60,000 "peacekeepers" of the NATO Bosnian Mission in 1995, and this was reduced to 6,000 by May 2000.[49] The Bosnian Serb siege of Sarajevo was withdrawn in March 1996, and approximately 70,000 Bosnian Serbs fled Ilidza, a suburb of Sarajevo, even digging up their dead to take them with them.[50]

All along, the "world community" had deplored "ethnic cleansing," favoring a multiethnic vision, but the realities "on the ground" governed the Dayton Accords, which confirmed the ethnic separations that warfare had effected. In Bosnia specifically, however, a complicated arrangement of mutual governance was arrived at involving the different ethnicities. This may well depend for its continuance, however, upon the indefinite presence of external military forces.[51] The Bosnian Muslims remain surrounded by their enemies.

President Clinton at first announced that American troops would remain as part of the peacekeeping force for only one year. In 1996, NATO's presence (with its American contingent) was extended, and then in late 1997 was continued indefinitely.[52] After almost five years, no end is foreseen for the intervention.

Kosovo

Nothing better illustrates a people's investiture of physical space

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[47] Brune, *Post-Cold War Interventions*, pp. 87, 94, 98, 100.
[48] Silber and Little, *Yugoslavia: Death of a Nation*, p. 356.
[49] *The Wichita Eagle*, May 2, 2000, p. 5A.
[50] Ramet, *Balkan Babel*, p. 282.
[51] Silber and Little, *Yugoslavia: Death of a Nation*, p. 30.
[52] Brune, *Post-Cold War Interventions*, pp. 113, 120.

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with meaning than the Serbian sentiment toward Kosovo, which the Serbs see as sacred ground despite many years of an ethnic Albanian majority there. Kosovo, a "province" which was not given the status of a "republic" with the accompanying right of secession by the Yugoslavian constitution of 1976, lies in the southern part of Yugoslavia. Sixty-seven percent of its people were Albanian Muslims in 1961, but a high birth rate among these, combined with the emigration of a good many Serbs who complained about ethnic Albanian hostility, made the 1991 population 90 percent Muslim and just 10 percent Serb.[53] Despite this shift, Serbian nationalism, as reflected in the 1986 memorandum by the Serbian Academy of Sciences and Arts, gave the retention of Kosovo a preeminent place. Kosovo has been a virtual "holy land" to the Serbs, having been the locale where the Ottoman Turks defeated the Serbs in 1389, imposing what proved to be almost five hundred years of Ottoman rule. Serbian resentment and self-assertiveness still burned brightly after all of those centuries, especially after the rise of nationalist feeling in the nineteenth century.

In 1968 after much dissension, demonstrations against "Serbian oppressors" and in favor of Albania broke out throughout Kosovo. These were suppressed by a combination of concessions and shows of force.[54] Anti-Serbian rioting was again militarily suppressed in 1981, a year after Tito's death, and tensions remained at a boil. In 1986, 200 well-known Serbian intellectuals protested what they saw as ethnic Albanian genocide against Serbs in Kosovo "through actions ranging from physical attacks to rape." They considered a capitulation to this a form of "national treason."[55]

By the end of the 1990s, a Kosovo Liberation Army (KLA) had come into being and, in the words of Allan C. Brownfeld, was "waging a classic guerrilla insurgency to win Kosovo's independence from Serbia... Its goal is a Kosovo from which Serbs have been ethnically cleansed."[56] Robert Gelbard, an American diplomat, spoke of the KLA as a "terrorist group." Indeed, as early as 1987, in

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[53] Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Touchstone Books, 1996), p. 260.

[54] Ramet, *Balkan Babel*, p. 305.

[55] Ramet, *Balkan Babel*, pp. 5, 306, 307.

[56] Allan C. Brownfeld in *St. Croix Review*, April 2000, p. 21.

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his speech in Kosovo, Milosevic had claimed that the exodus of the Serbian population was due to Albanian terrorism.[57] In Noel Malcolm's book *Kosovo: A Short History*, which is essentially favorable to the ethnic Albanians, Malcolm ascribes the final crisis to a "disproportionate" response by Serbian authorities to continuing attacks, including some assassinations, by the KLA in 1996 and 1997. By mid-1998, the KLA, Malcolm says, "had abducted and killed a number of Serb civilians, and was claiming that it controlled a large area of 'liberated territory.'" In response, Serbian troops destroyed more than 300 Albanian villages, forcing the inhabitants out and in effect doing a reverse ethnic cleansing.[58] These facts, in juxtaposition, are especially valuable because they show that it was a more complex, interactive conflict than simply the "vicious Serb aggression" that Americans, who saw the images of fleeing Albanians on television, came to believe it was.

A peace conference was convened at Rambouillet, France, on February 6, 1999, where, as Ramet tells us, the Western proposal to settle the war was unacceptable to both sides. "It offended the Albanians by offering only autonomy, rather than independence, and alienated the Serbs by proposing to introduce 30,000 NATO ground troops in Kosovo" which Serbia considered an historic part of its sovereign territory.[59] Eventually, the Albanians accepted the offer, believing they had no choice if the West were to continue to stay involved. Serbia rejected it, however, and U.S. President Clinton launched the U.S. air assault against Serbia on March 24, 1999, carrying out 12,575 "strike sorties" between March 24 and the end of the air war on June 3. During the air attacks, Serbia continued its ground campaign, killing a reported 4,500 Albanians and causing 855,000 to flee as refugees. On June 3, Milosevic, seeing much of the Serbian infrastructure in ruins, capitulated, and a "peacekeeping" force of 39,000 NATO troops, including 5,600 Americans, was placed inside Kosovo.[60]

The aftermath has been less than satisfactory from the point of

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[57] Brune, *Post-Cold War Interventions*, p. 72.

[58] Noel Malcolm, *Kosovo: A Short History* (New York: HarperPerennial, 1999), pp. 4, 6.

[59] Ramet, *Balkan Babel*, p. 317.

[60] Ramet, *Balkan Babel*, pp. 318, 319.

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view of those who wanted simply to stop the fighting and reestablish Kosovo as a multiethnic autonomous province within Serbia. [We should note, however, that even though this was the rationale expressed by NATO, consistent with the overall ideology of "multi-ethnicity," the United States had greatly demonized Milosevic and the Serbs, and had come to see the ethnic Albanians sympathetically. With that as the context, it is difficult to imagine that an ultimate ascendancy by the Albanians would be particularly distasteful to the Americans.] Christopher Layne of the University of Southern California's Center for International Studies says that since the peacekeepers entered Kosovo "the KLA remains potent militarily, having blatantly refused to comply with its pledge to disarm." Layne refers to the continuing "brutal expulsion of Kosovo's Serb population."[61] Kosovo is accordingly becoming, even under the eyes of NATO and the United States, an Albanian state. On May 2, 2000, the New York Times News Service reported that "the top U.S. commander in Kosovo [predicts] that NATO peacekeepers will have to remain in the Balkans for 'at least a generation.'"[62]

The Interventions in Light of the Questions They Raise in Common

With the review of the interventions as background, we can now examine how the questions that were mentioned at the beginning of this article are answered:

1. *Whether the intervention resulted primarily from sensationalist media accounts, leading to a selectivity among possible interventions that had little basis in principle.*

The worldwide mass media have a pervasive impact on the response to specific issues. David Callahan says that "graphic media images of international suffering are now transmitted faster and more widely than ever before, and these images often fuel public demands for action."[63] Such images spurred demand for the U.S. intervention into Somalia in 1992; Walter Clarke relates how "the humanitarian

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[61] Layne is quoted by Brownfeld in *The St. Croix Review*, April 2000, p. 21.

[62] *The Wichita Eagle*, May 2, 2000, p. 5A.

[63] David Callahan, *Unwinnable Wars: American Power and Ethnic Conflict* (New York: Twentieth Century Fund Books, 1997), pp. 45, 91.

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disaster in Somalia was on all the television screens in the United States by August 1992."[64] American General Colin Powell wrote in his memoirs that the mission was decided upon after Somalia "wrenched our hearts." Brune suggests that "perhaps like the American public, Bush, Powell, and Secretary of Defense Richard Cheney simply judged Somalia by the television pictures reaching their homes. These instant photographs depicted the horrendous suffering of starving women and children but never captured the savage reality of the young gangs."[65]

The media again provided the provocation for action in Bosnia and Kosovo. Graphic atrocity reports about war crimes committed mainly by Serbs "outraged world opinion and inspired a U.S. congressional debate" in August 1992, Brune says.[66] In Kosovo, according to Malcolm, after Serb forces took men away from their families, "the U.S. government [reported] that it had satellite images of many newly dug mass graves."[67] These reports received extensive media attention at the time and were the principal provocation for the U.S. air war against Serbia, overriding Serbian protestations that the reports were false and were concocted by the Kosovo Liberation Army precisely to cause NATO intervention. It is a serious embarrassment that the atrocity reports did not prove true when investigated after the war. In an article entitled "Where are the bodies... Few 'mass graves' found thus far in Kosovo," the *WorldNetDaily* in late 1999 told of an independent intelligence report by a U.S.-based firm (the "Stratfor Report"). The report said that the International Criminal Tribunal to try war crimes cases had found no bodies in the Trepca mines despite earlier reports that the corpses of 700 murdered ethnic Albanians were hidden there. "Official estimates indicated that some 10,000 ethnic Albanians were killed in a Serb rampage of ethnic cleansing. Yet four months into an international investigation bodies numbering only in the hundreds have been exhumed," with the FBI [which participated in the search] having found "fewer than 200."[68]

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[64] Clarke and Herbst, *Learning from Somalia*, p. 8.

[65] Brune, *Post-Cold War Interventions*, pp. 19, 20.

[66] Brune, *Post-Cold War Interventions*, p. 92.

[67] Malcolm, *Kosovo: A Short History*, twelfth page of the unpaginated Preface.

[68] Article by Jon E. Dougherty dated October 20, 1999, in *WorldNetDaily.com*, December 1, 1999.

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Interventions brought about by media attention are in principle no more worthy of intervention than countless other situations that are ignored. Robert Rotberg wrote in 1997 that "we live in a world where civil wars in far-off places are the norm – where thirty wars erupt annually, where there are twenty complex humanitarian crises every year, where 50 million persons are now displaced..., and where millions of people were killed during 1991-1995 in one corner of Africa alone"[69] [emphasis added]. The media-guided selectivity produces criticisms such as that voiced by U.N. Secretary General Boutros-Ghali that the United States and its allies concerned themselves with Yugoslavia while turning a blind eye toward humanitarian needs in African nations such as Liberia, Somalia, and Rwanda.[70]

2. *Whether the problems that the intervention sought to address are in fact soluble.*

No amount of outside assistance and intervention seems to improve the situation in Haiti. After the 1915-1934 American occupation, Haiti passed into several decades of dictatorship under "Papa Doc" and "Baby Doc" Duvalier. We have seen how corruption, violence and political chaos reign after the U.S. occupation in the 1990s.

In Somalia the situation is one where, even in the absence of the more recent troubles, there are large portions of the country "where bandits attack villages, shooting and looting before disappearing into the bush, where deaths from malaria, tuberculosis, fevers, and accidents claim far more lives than does old age."[71] Even before the intraclan warfare on the 1990s, Mogadishu was a "hardship post" for any Westerner sent there: "Streets were unsigned and driving was a free-for-all. Municipal electricity was erratic and unpredictable, telephone service ineffectual, and local news unavailable."[72] The picture Anna Simons paints of the larger culture isn't encouraging: "The universal belief among expatriates [was] that Somalis lacked the ability to maintain anything – roads, equipment, offices, projects, or,

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[69] Rotberg in Clarke and Herbst, *Learning from Somalia*, p. 233.
[70] Brune, *Post-Cold War Interventions*, p. 93.
[71] Besteman, *Unraveling Somalia*, pp. 32, 33.
[72] Simons, *Networks of Dissolution*, p. 11.

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essentially, themselves."[73] Corruption, a lack of civic motivation and of any coherent national feeling, pastoralist ideology, an eagerness to rely on the help of outsiders, and a low level of competence all combine to deny a solid basis for a successful culture.

There is no lack of civilization in the former Yugoslavia, including Bosnia and Kosovo, so the situation is not so obviously irremediable. The insolubility comes, rather, from centuries-long enmities. What foundation is there for a spirit of peace within the heart of a person whose parents and siblings have been shot, raped or hacked to pieces? There is little wonder that the prediction is made that a peacekeeping force will have to remain indefinitely.

3. Whether the intervention was undertaken with an achievable desirable outcome in mind.

In May 2000, William B. Jones, the U.S. ambassador to Haiti from 1977 to 1980, wrote that "once again, Haiti has made the complete circle from chaos and violence to chaos and violence. Although well-meaning and idealistic, U.S. policies have failed to bring democracy, stability and economic growth to Haiti."[74]

No clear case of an "end-game" occurred in Somalia, where a bloodied United States withdrew, "to be replaced," according to Clarke and Herbst, "by far less well trained and well armed soldiers from a multitude of countries."[75] Anna Simons tell how "the humanitarian assistance organizations paid pirates' ransoms to hired guns, bribed well-fed people in order to be able to deliver food to the starving, and otherwise created new inequities based on who [sic] they employed, elevated, and had to secure protection from."[76]

As to Bosnia, David Pryce-Jones says that "Bosnia is now a protectorate. A Bosnian government goes through the motions of administration, but U.N. personnel alone guarantee law and order. The world community, in other words, has introduced an updated version of the typical 19th-century colonial regime."[77] Fareed Zakaria, the managing editor of *Foreign Affairs*, predicts that "the

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[73] Simons, *Networks of Dissolution*, p. 15.
[74] Op-ed column in the *Wichita Eagle*, May 12, 2000.
[75] Clarke and Herbst, *Learning from Somalia*, p. 243.
[76] Simons, *Networks of Dissolution*, p. 205.
[77] David Pryce-Jones, "Kosovo, from Scratch," in *National Review*, July 12, 1999, p. 21.

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moment the occupation ends, the problems that led to the intervention will resume. Absent an occupying force, Bosnia would split into three separate, ethnically uniform states."[78]

There would not seem to be a coherent goal for Kosovo. The Clinton administration said that it wanted a multiethnic Kosovo that would be autonomous within Yugoslavia. But the destruction of Serbia's infrastructure and the driving out of the Serbian army set the stage for the "ethnic cleansing," in which ethnic Albanians have driven the Serb population out of Kosovo, that has followed the NATO occupation. Don Feder reports that "triumphant Albanians ethnically cleansed 230,000 Serbs and gypsies from Kosovo."[79]

The lack of an end-game becomes especially apparent when there is difficulty disengaging, as in Bosnia and Kosovo – or where disengagement means "cutting and running," as in Somalia and Haiti, without having produced an appreciable effect.

4. *Whether there is conceptual clarity about the ends and the means to attain them.*

This deserves to be considered as a separate point because interventions are often mired in conceptual muddles.

There has been an impression that "humanitarian interventions" are both distinct from and much safer than "political interventions." This may be so where there is no local conflict; but where there is, the helping of those in distress is inescapably an intervention on the side of those who have been losing and against those who have been winning. In the context of Somalia, and speaking directly to the idea of the two types of intervention, Clarke and Herbst say that "although analytically attractive, the distinction between the different types of intervention, at the heart of so much of the current debate, is not particularly helpful. Indeed, at a practical level, it is hard to see how anyone could believe that landing 30,000 troops in a country was anything but a gross interference in major aspects of a country's politics."[80]

There is also a disconnect between the U.S. desire to intervene in crises and its unwillingness to suffer casualties. In Somalia when

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[78] Writing in *National Review*, September 27, 1999, p. 24.

[79] Don Feder column, *Middle American News*, July 2000, p. 17.

[80] Clarke and Herbst, *Learning from Somalia*, p. 242.

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the warlord Aideed adopted a tactic of "killing Americans," the American public came alive to the dangers and President Clinton immediately announced plans for U.S. withdrawal.[81]

Another confusion comes from the inability to decide between two ideological absolutes: the devotion to "multiethnicity" and the affirmation of distinct ethnic identities. The "international community" wants "ethnic pluralism" in such places as Kosovo and Bosnia, but at the same time the interventions run up against the separatism that distinct peoples prefer (and passionately seek) in fact.

There is conceptual confusion, too, in the prosecution of "war crimes" in a world in which "man's inhumanity to man" is as ubiquitous as it is. When there are apparently inexcusable brutalities committed on all sides in an endless string of wars, it is valid to ask just what justifies bringing a few perpetrators before a court either for prison or execution.

5. *Whether Americans have had any profound understanding of the situations into which they have intervened.*

Commentators often speak of Americans' poverty of understanding about foreign peoples and situations. About Bosnia, Samuel Huntington says that "American idealism, moralism, humanitarian instincts, naivete, and ignorance concerning the Balkans thus led them to be pro-Bosnian and anti-Serb."[82] Robert H. Jackson writes that it was far more convenient to those seeking intervention to see the Yugoslav situation as a struggle among warlords than to see it as a popularly-based struggle for ethnic self-determination.[83]

About Somalia, Walter Clarke writes that "inability or unwillingness to discern the essential political dynamics of the country and to effect remedial measures to foster civil society -- out of expedience, disinterest, or naive 'neutrality' – lies at the root of the world's failure in Somalia."[84]

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[81] Brune, *Post-Cold War Interventions*, p. 33.

[82] Huntington, *Clash of Civilizations*, p. 290.

[83] Jackson in Gene M. Lyons and Michael Mastanduno, *Beyond Westphalia? State Sovereignty and International Intervention* (Baltimore: The Johns Hopkins University Press, 1995), p. 73.

[84] Clarke in Clarke and Herbst, *Learning from Somalia*, p. 4.

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6. Whether intervention has made the world a more dangerous place for the United States in light of the animosities incurred.

There is the risk that to the extent other peoples value their cultural identity and national sovereignty, they may well resent anyone who has a transcendent vision to impose on them. Christopher Layne writes that "this unilateral dominance – what political scientists call hegemony – is self-defeating... When one state becomes too powerful, other states become fearful and unite to 'balance' against it."[85]

Such resentment shows up in many places. John Drysdale says that the Somalis who inflicted heavy casualties on American Rangers on October 3, 1993, saw it as "an unprecedented triumph over a perceived tyranny."[86] Anna Simons reports that many Somalis were suspicious of the motives behind the intervention: "Obviously Somalia had to have something the United States and the rest of the world wanted."[87]

Dana Munro says that during the long early-twentieth century American occupation of Haiti, "there had always been resentment of the presence of foreign troops and the authority exercised by foreign officials." He tells how each class in Haitian life had its own reasons for this resentment.[88] Those who in the 1990s opposed the American intervention on behalf of Aristide formed a National Anti-Occupation Coalition in 1994, and blamed the assassination of Aristide opponents on President Clinton.[89] On the other side, we have seen how Rene Preval's government, elected from Aristide's party to succeed him, wasted no time in establishing diplomatic relations with Castro's Communist government in Cuba right after Preval was installed.[90] Then in July 2000, *Insight* magazine reported that "in mid-June, supporters of former president Jean-Bertrand Aristide trampled and spat on an American flag in front of the U.S.

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[85] Christopher Layne article, "America's Role," *Washington Post*, November 17, 1999, p. B01.

[86] John Drysdale in *Learning from Somalia*, p. 33.

[87] Simons, *Networks of Dissolution*, pp. 207, 208.

[88] Dana G. Munro, *The United States and the Caribbean Republics, 1921-1933* (Princeton: University of Princeton Press, 1974), p. 309.

[89] *The Wichita Eagle*, March 29, 1995, report "Former Haitian official assassinated."

[90] *The Wichita Eagle*, February 8, 1996.

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embassy in Port-au-Prince."[91]

Conclusion

The recent American interventions into Haiti, Somalia, Bosnia and Kosovo would seem to illustrate the reasons for humility and caution. They raise serious questions about ends-and-means, conceptual clarity, depth of understanding, the process of decision, and what may well be an unnecessary incurring of the rage for vengeance. As many of the conflict-situations tell us, reciprocal bloodlust is almost impossible to stop once it is started. Just what forms that bloodlust may take in an age when terrorism will be armed with chemical, biological and nuclear weapons of mass killing remains to be seen. For those who make themselves parties to disputes, they can never tell when the final chapter will be written.

[91] *Insight*, July 17, 2000, p. 24.

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